

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Michael Kubayanda, Chairman;
Ashley E. Poling, Vice Chairwoman;
Mark Acton;
Ann C. Fisher; and
Robert G. Taub

First-Class Package Service (FCPS),
Service Standard Changes, 2021

Docket No. N2021-2

ADVISORY OPINION ON THE SERVICE STANDARD CHANGES
ASSOCIATED WITH FIRST-CLASS PACKAGE SERVICE



Washington, DC 20268-0001
September 29, 2021

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I. EXECUTIVE SUMMARY

The Postal Service requests an advisory opinion on its proposal to revise the service standards for First-Class Package Service (FCPS).¹ The Postal Service claims its proposal will result in more reliable and consistent service performance, improve the Postal Service's ability to run according to its operating plans and optimize its surface transportation network, and create cost savings by allowing more time to transport FCPS at a lower expense. Request at 6-7. Specifically, the Postal Service seeks to lengthen the service standards by 1 to 2 additional days for approximately 31.2 percent

¹ United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, June 17, 2021 (Request).

of FCPS volume and shorten the service standards by 1 day for approximately 4.8 percent of FCPS volume.²

In general, decisions regarding the Postal Service's Competitive products—products that have private competitors in the marketplace—are left to the reasonable business judgment of the Governors of the Postal Service. FCPS is a Competitive product and the Postal Accountability and Enhancement Act (PAEA)³ limited the Commission's oversight role for these types of products. Therefore, the law makes the Commission's oversight role in this case far more limited.⁴ Additionally, the Postal Service's FCPS offering competes directly with private sector firms in the market for lightweight parcels. Unlike Market Dominant products, the Postal Service's Competitive product prices are not capped and quality of service is subject to less regulatory oversight because market competition is expected to serve as the primary guarantor of discipline with respect to price and quality. With respect to service standards, the PAEA and federal regulations require the Postal Service to give advance notice of plans to change its service standards and to submit proposed changes for the Commission to issue an advisory opinion;⁵ however, the Commission lacks the authority to enforce its advice regarding the Postal Service's proposed changes to service standards.

² Library Reference, USPS-LR-N2021-2/4, July 13, 2021, Excel file "10_3digit_FCPS_Public_REV_7.13.21.xlsx," tab "3 Digit Impact," cells E5, E8, E10, E11, and E16. Specifically, the Postal Service estimates that its proposal would subject approximately 16.9 percent of FCPS volume to a downgrade of 1 additional day (changing from 2-day to 3-day and from 3-day to 4-day service standard) and 14.3 percent of FCPS volume to a downgrade of 2 additional days (changing from 3-day to 5-day service standard). These Postal Service estimates refer only to volume both originating and destinating in the contiguous United States.

³ Pub. L. 109-435, 120 Stat. 3198 (2006).

⁴ This is discussed in more detail below in Sections VII.A., C.1.

⁵ 39 U.S.C. § 3661(b) (requiring the Postal Service to "submit a proposal [to change the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis], within a reasonable time prior to the effective date of such proposal, to the Postal Regulatory Commission requesting an advisory opinion on the change."); 39 C.F.R. § 3020.112 (requiring the Postal Service to file notice of any changes to the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis at least 90 days in advance).

The Commission has analyzed the estimated impact of the proposal on the Postal Service's service performance, financial condition, transportation network, and customer satisfaction. The Commission's advisory opinion is guided by and comports with the policies of Title 39. This Advisory Opinion includes several key findings.

First, the Commission finds that the Postal Service's stated goals for the proposal appear reasonable. However, the Postal Service assumes a number of factors for successful implementation that have not been demonstrated. These factors include: (1) successful operational implementation; (2) achievement of consistency and reliability of service over time; (3) reasoned assumptions with regard to demand changes; and (4) the ability to actually achieve modeled efficiencies. The Postal Service's proposal is a directional rather than tactical presentation; therefore, other factors may impact its success.

Second, the Commission finds that the proposed changes should have a positive impact on the Postal Service's ability to meet its service performance targets. However, due to the COVID-19 pandemic, estimating service performance impacts on a model based on Fiscal Year (FY) 2020 data may be unreliable as FY 2020 was not a representative year for service performance. The Postal Service does not include a firm estimate for when the Postal Service will meet its service performance targets, nor does it include any interim service performance targets. As such, it is unclear when the Postal Service plans to realize the full impact of its proposed changes. The Commission notes that the Postal Service also did not provide detailed data for evaluating the service performance differences between transportation modes, nor did it analyze in detail the impact on the end users of FCPS, such as recipients of pharmaceutical FCPS volume.

Third, the Commission finds that the Postal Service's estimates of how much it will save as a result of implementing the proposed changes may be inflated. The Commission is concerned that the Postal Service has not adequately developed the charter carrier and network distribution center (NDC) optimization cost estimates that

supports several of its underlying cost assumptions. Additionally, the Postal Service relies heavily on the achievement of cost savings related to changes for Market Dominant First-Class Mail letters and flats proposed in Docket No. N2021-1, which are also based on FY 2020. Even if the Postal Service's cost savings estimates prove to be accurate, the Commission's analysis shows that the proposed changes would not substantially affect the Postal Service's overall financial condition.

Fourth, the Commission is concerned that several flaws in the Postal Service's transportation model could diminish its reliability. These flaws include: oversimplifications of assumptions, reduced complexity of business rules, and the baseline trip structure,⁶ which is more efficient and not representative of the actual network's trip structure. As a result of these flaws, the model presented by the Postal Service fails to account for the actual network's operational constraints and therefore does not reflect the operating environment likely to exist after the proposal is implemented. Once these modeling limitations are accounted for, the Commission finds that the proposed changes will likely not be as beneficial as the Postal Service's projections. The Commission also observes that in order to achieve its modeled efficiencies, the Postal Service must ensure timely operations at all points along the route. The models have not been operationally tested by the Postal Service.

Fifth, the Commission's analysis shows that the baseline network presented by the Postal Service may be unrealistic in that it is significantly more optimized than its current actual network operations. Thus, the Postal Service's surface network impact projections and estimated cost changes are potentially inaccurate and unachievable. The Commission notes that the Postal Service has not demonstrated in this proceeding that it is operationally capable of managing the complex surface network modeled to

⁶ The "baseline" network discussed in the advisory opinion refers to the baseline scenario modeled by the Postal Service using the logistics industry optimization software, Blue Yonder® Transportation Modeler (TMOD). It does not refer to the actual and current postal network. As described in this document, there are significant differences between the data for FY 2020 and the descriptive statistics for the baseline network.

support the service standard changes it plans to implement. Additionally, the Commission is concerned that the Postal Service's planned timeframe may be too ambitious because implementing processing and transportation changes prior to peak season would be difficult under typical circumstances and may face additional challenges due to the continuation of the COVID-19 pandemic emergency and stress on the logistics industry.

Although the Commission finds that the proposed change may reinforce FCPS's value due to increased reliability, it observes that the Postal Service's ability to maintain current volumes could be dampened by increased competition in the parcel market. The Commission evaluates the results of the First-Class Package Service Transit Commitment Survey ("FTC Survey"),⁷ which sampled current FCPS-Commercial shippers, and observes some technical weaknesses that affect the validity of the survey. The Commission finds that the survey inadequately addresses the responses of certain key groups, such as package recipients, retail customers, and marketplace shippers.

Finally, the Commission finds that the proposed changes are not facially inconsistent with applicable statutory requirements. However, in its filing and responses throughout this Advisory Opinion process, the Postal Service has not demonstrated that its implementation of the proposed changes will comport with these requirements.

Based on these findings, the Commission provides the following recommendations to the Postal Service for consideration before implementing its plan. The Postal Service should:

⁷ See Library Reference USPS-LR-N2021-2/NP3, June 17, 2021, Excel file "FTC Survey.N2021-2-NP3.FINAL.ppt.xlsx."

- *Set realistic interim service performance targets.* Because of a number of highly dynamic factors that the Postal Service expects to continue to evolve throughout FY 2022 and a lack of operational testing of how the Postal Service would achieve the planned service standards in the field, the Postal Service should set realistic interim service performance targets to monitor progress towards its longer-term target of delivering FCPS at a level of 95 percent on-time.
- *Develop a rigorous analytical methodology to identify the changes in costs that will result from implementing its plan.* Because the potential cost savings projected by the Postal Service rest on a number of unproven assumptions, the Postal Service should develop a rigorous analytical methodology to identify the changes in cost that will result from implementing its plan.
- *Gauge customer satisfaction specific to the implementation of its proposed changes.* Because the FTC Survey performed on behalf of the Postal Service may not be fully representative of the diverse user base of FCPS (such as some of the Postal Service's largest FCPS-Commercial shippers, package recipients, retail customers, marketplace shippers, and other stakeholders), the Postal Service should monitor customer satisfaction going forward, particularly for key segments that may be most affected by implementation of its plan.
- *Engage stakeholders in a continuing dialogue regarding the effects of implementing its proposed changes and potential mitigation measures.* Because of a number of highly dynamic factors that the Postal Service expects to continue to evolve throughout FY 2022, the Postal Service should engage stakeholders in a continuing dialogue regarding the effects of implementing its proposed changes and potential mitigation measures.

II. PROCEDURAL HISTORY

A. Pre-Filing Issues

On March 23, 2021, the Postal Service published a 10-year strategic plan announcing potential changes intended to achieve financial stability and service

excellence.⁸ The Postal Service Strategic Plan identified the Postal Service's proposed changes to the service standards for First-Class Mail (FCM)⁹ and end-to-end Periodicals, which were subsequently submitted to the Commission for an advisory opinion.¹⁰ As a result, the Commission issued its advisory opinion in Docket No. N2021-1.¹¹

On May 25, 2021, the Postal Service filed a notice of its intent to conduct a pre-filing conference regarding additional proposed changes, this time to the service standards for FCPS, which it claimed would "generally affect service on a nationwide or substantially nationwide basis."¹²

On May 26, 2021, the Commission issued Order No. 5900, which established Docket No. N2021-2 to consider the Postal Service's proposed changes, notified the public concerning the Postal Service's pre-filing conference, and appointed a Public Representative.¹³ Due to the COVID-19 pandemic, the Postal Service held its pre-filing conference virtually on June 8, 2021. See Order No. 5900 at 1, 3.

⁸ See United States Postal Service, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, March 23, 2021, available at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf (Postal Service Strategic Plan). The Postal Service Strategic Plan is significantly broader than the specific advisory opinion request at issue in this docket, and the Postal Service may pursue other changes as part of its plan that combined have a much different impact on postal services than what is presented and evaluated in this docket.

⁹ In this Advisory Opinion, the Commission uses "FCM" to refer to Market Dominant First-Class Mail.

¹⁰ Docket No. N2021-1, United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, April 21, 2021 (Docket No. N2021-1 Request).

¹¹ Docket No. N2021-1, Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, July 20, 2021 (Docket No. N2021-1 Advisory Opinion).

¹² Notice of Pre-Filing Conference, May 25, 2021, at 1 (quoting 39 U.S.C. § 3661(b)) (Notice).

¹³ Notice and Order Concerning the Postal Service's Pre-Filing Conference, May 26, 2021, at 1-2, 3 (Order No. 5900).

B. The Postal Service Request

On June 17, 2021, the Postal Service filed its formal request for an advisory opinion from the Commission regarding planned changes to the service standards for FCPS. See Request. The intended effective date of the Postal Service's planned changes is no earlier than October 1, 2021, which is more than 90 days after the filing of the Request. Request at 1. The Postal Service asserts that it completed the pre-filing requirements appearing in 39 C.F.R. § 3020.111, and certifies that it has made a good faith effort to address concerns of interested persons about the Postal Service's proposal raised at the pre-filing conference. See *id.* at 2.

In support of its Request, the Postal Service provided the direct testimony of three witnesses: Stephen B. Hagenstein (USPS-T-1), Michelle Kim (USPS-T-2), and Thomas J. Foti (USPS-T-3).¹⁴ The Postal Service identified a fourth individual, Sharon Owens, to serve as its institutional witness and provide information relevant to the Postal Service's proposal that is not provided by other Postal Service witnesses. Request at 2. Additionally, the Postal Service filed seven library references, four of which are available to the public and three of which are designated as non-public material.¹⁵

Witness Hagenstein discusses the proposed service standard changes, their benefits, and how they would affect current mail volume in the contiguous United States. See USPS-T-1.

¹⁴ Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service, June 17, 2021 (USPS-T-1); Direct Testimony of Michelle Kim on Behalf of the United States Postal Service, June 17, 2021 (USPS-T-2); Direct Testimony of Thomas J. Foti on Behalf of the United States Postal Service, June 17, 2021 (USPS-T-3). The Postal Service subsequently filed a replacement version of witness Hagenstein's testimony that added line numbers. Notice of Filing Replacement Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T-1), June 21, 2021.

¹⁵ Library Reference USPS-LR-N2021-2/1, June 17, 2021; Library Reference USPS-LR-N2021-2/2, June 17, 2021; Library Reference USPS-LR-N2021-2/3, June 17, 2021; Library Reference USPS-LR-N2021-2/4, June 17, 2021; Library Reference USPS-LR-N2021-2/NP1, June 17, 2021; Library Reference USPS-LR-N2021-2/NP2, June 17, 2021; Library Reference USPS-LR-N2021-2/NP3, June 17, 2021.

Witness Kim discusses the Postal Service's financial situation and the estimated impact of the proposed changes on the Postal Service's financial situation (including estimated transportation cost savings related to the proposal). See USPS-T-2.

Witness Foti discusses current trends in the lightweight package market, how the proposed service standard changes may impact customer satisfaction, and the market research conducted to estimate the potential volume and contribution impact of the proposed service standard changes. See USPS-T-3.

C. Initial Commission Action and Errata Filed by the Postal Service

On June 21, 2021, the Commission issued Order No. 5920, which set forth a procedural schedule for the proceeding and designated Commissioner Ann C. Fisher as Presiding Officer.¹⁶

On July 2, 2021, the Postal Service filed a notice of errata modifying certain pages of the Request and the supporting testimony filed on behalf of its three witnesses.¹⁷ The Postal Service also filed a notice revising the following supporting library references: USPS-LR-N2021-2/1, USPS-LR-N2021-2/4, USPS-LR-N2021-2/NP1, and USPS-LR-N20201-2/NP2.¹⁸ The Postal Service states that both sets of revisions are related to errors in how its summary tables were compiled and/or

¹⁶ Notice and Order on the Postal Service's Request for an Advisory Opinion on Changes in the Nature of Postal Services, June 21, 2021, at 9-10 (Order No. 5920).

¹⁷ The Postal Service included revised versions of certain pages of the Request and the witness testimony. Notice of the United States Postal Service of Revisions to Certain Pages of the Request for an Advisory Opinion, USPS-T-1, USPS-T-2, and USPS-T-3 -- Errata, July 2, 2021 (Errata to Request and Testimony). The version of the Request that includes the amended pages is hereafter referred to as the "Revised Request," while the testimony that includes the revised pages is hereafter referred to as "Revised USPS-T-1," "Revised USPS-T-2," and "Revised USPS-T-3," respectively. Each testimony, as revised by the replacement version for Witness Hagenstein and the errata for all three witnesses, is included in the transcript. See Presiding Officer's Ruling Granting Motions to Admit Evidence and Designating Additional Materials for the Evidentiary Record, August 16, 2021 (POR No. N2021-2/7), Attachment at 1-2.

¹⁸ Notice of the United States Postal Service of Revisions to Library References 1, 4, NP1, and NP2 -- Errata, July 2, 2021 (Notice Revised Library References).

deficiencies in aggregating modeled results with unmodeled results. See Errata to Request and Testimony at 1-3.

On July 8, 2021, the Commission amended the procedural schedule.¹⁹

On July 13, 2021, the Postal Service filed another notice of errata revising Library Reference USPS-LR-N2021-2/4 and Library Reference USPS-LR-N2021-2/NP2, stating that these revisions corrected errors in discrete Excel spreadsheet cells.²⁰

D. Public Participation and Additional Information

The following six parties intervened in this proceeding: (1) Douglas F. Carlson (Carlson); (2) American Postal Workers Union, AFL-CIO (APWU); (3) Steve Hutkins (Hutkins); (4) National Association of Letter Carriers, AFL-CIO (NALC); (5) Association for Postal Commerce (PostCom); and (6) National Association of Postal Supervisors (NAPS).²¹

APWU, Hutkins, and the Public Representative propounded discovery to clarify the Revised Request and witness testimony.²² The Postal Service answered each of

¹⁹ Order Modifying Procedural Schedule, July 8, 2021 (Order No. 5933). This schedule was further amended on July 26, 2021. See Presiding Officer's Ruling Further Adjusting Procedural Schedule and Pre-Hearing Filings, July 26, 2021 (POR No. N2021-2/3).

²⁰ Notice of the United States Postal Service of Revisions to Library References 4 and NP2 -- Errata, July 13, 2021, at 1.

²¹ Douglas F. Carlson Notice of Intervention, June 28, 2021; Notice of Intervention of the American Postal Workers Union, AFL-CIO, June 28, 2021; Steve Hutkins Notice of Intervention, June 29, 2021; Notice of Intervention of the National Association of Letter Carriers, AFL-CIO, June 29, 2021; Notice of Intervention of the Association for Postal Commerce, June 29, 2021; National Association of Postal Supervisors Notice of Intervention, June 30, 2021. Appendix A provides a list of these parties and identifies their counsel/authorized representative.

²² Public Representative's First Set of Interrogatories and Requests for Production to United States Postal Service Witness Thomas J. Foti, July 8, 2021; Public Representative's Second Set of Interrogatories and Requests for Production to United States Postal Service Witness Stephen B. Hagenstein (PR/USPS-T-1), July 16, 2021; American Postal Workers Union, AFL-CIO Interrogatories to Stephen B. Hagenstein (APWU/USPS-T-1/1-16), July 20, 2021; Steve Hutkins Interrogatories to United States Postal Service Witness Foti, July 21, 2021; Steve Hutkins Interrogatories to United States Postal Service Witness Hagenstein, July 21, 2021.

these discovery requests.²³ In total, 13 Presiding Officer's Information Requests (POIR) containing over 100 questions, many of which contained multiple subparts, were issued to further develop the record.²⁴

²³ Revised Responses of Postal Service Witness Foti to Public Representative Interrogatories PR/USPS-T3-1 – 4 -- Errata; July 19, 2021 (replacing responses filed on July 15, 2021 with corrected numbering); Revised Response of United States Postal Service Witness Hagenstein to PR/USPS-T1 – 8 - Errata; July 19, 2021 (replacing responses filed on July 15, 2021 with corrected numbering); Response of Postal Service Witness Foti to Public Representative Interrogatory PR/USPS-T3-5, July 23, 2021; Responses of United States Postal Service Witness Hagenstein to the Public Representative's Second Set of Interrogatories and Requests for Production - PR/USPS-T1-9 - 10, July 23, 2021 (Response to PR/USPS-T1-9-10); Response of Postal Service Witness Kim to Public Representative Interrogatory PR/USPS-T2-1, July 23, 2021; Response of United States Postal Service Witness Hagenstein to Intervenor American Postal Workers Union, AFL/CIO's Interrogatories 1-3, 5-13 and 16, July 27, 2021 (Response to APWU/USPS-T1); Response of United States Postal Service Witness Foti to APWU/USPS-T1-14 and 15, Redirected From Witness Hagenstein, July 27, 2021; Response of United States Postal Service Witness Hagenstein to Intervenor American Postal Workers Union, AFL/CIO's Interrogatory APWU/USPS-T1-4, July 28, 2021 (Response to APWU/USPS-T1-4); Response of United States Postal Service Witness Hagenstein to Intervenor Steve Hutkins' Interrogatories SH/USPS-T1-1 – 10, July 28, 2021 (Response to SH/USPS-T1); Responses of United States Postal Service Witness Foti to Intervenor Steve Hutkins' Interrogatories (SH/USPS-T3-1-5), July 28, 2021.

²⁴ Presiding Officer's Information Request No. 1 and Notice of Filing Under Seal, June 28, 2021; Presiding Officer's Information Request No. 2 and Notice of Filing Under Seal, July 1, 2021; Presiding Officer's Information Request No. 3 and Notice of Filing Under Seal, July 8, 2021; Presiding Officer's Information Request No. 4 and Notice of Filing Under Seal, July 16, 2021; Presiding Officer's Information Request No. 5, July 19, 2021; Presiding Officer's Information Request No. 6, July 20, 2021; Presiding Officer's Information Request No. 7, July 22, 2021; Presiding Officer's Information Request No. 8 and Notice of Filing Under Seal, July 29, 2021; Presiding Officer's Information Request No. 9, July 30, 2021; Presiding Officer's Information Request No. 10, August 3, 2021; Presiding Officer's Information Request No. 11 and Notice of Filing Under Seal, August 5, 2021; Presiding Officer's Information Request No. 12, August 10, 2021; Presiding Officer's Information Request No. 13, August 13, 2021.

The Postal Service answered each of these questions.²⁵

On August 4, 2021, APWU filed a rebuttal testimony.²⁶ No party filed a notice of intent to cross-examine any of the witnesses or requested to present oral argument by the established deadlines.²⁷ Accordingly, the oral hearing scheduled for August 11-13, 2021 was cancelled, and procedures were established to administratively enter witness

²⁵ Responses of the United States Postal Service to Questions 1-8.a, 9-11 of Presiding Officer's Information Request No. 1, July 6, 2021 (July 6 Response to POIR No. 1); Response of the United States Postal Service to Question 8.B of Presiding Officer's Information Request No. 1, July 7, 2021 (July 7 Response to POIR No. 1). Responses of the United States Postal Service to Questions 1-15 of Presiding Officer's Information Request No. 2, July 8, 2021 (Response to POIR No. 2); Revised Response of the United States Postal Service to Question 1 of Presiding Officer's Information Request No. 3 -- Errata, July 28, 2021 (July 28 Response to POIR No. 3) (replacing responses filed on July 15, 2021 with corrected header); Responses of the United States Postal Service to Questions 1-22 of Presiding Officer's Information Request No. 4, July 23, 2021 (Response to POIR No. 4); Responses of the United States Postal Service to Questions 1-7 of Presiding Officer's Information Request No. 5, July 26, 2021 (Response to POIR No. 5); Responses of the United States Postal Service to Questions 1-9 of Presiding Officer's Information Request No. 6, July 27, 2021 (Response to POIR No. 6); Responses of the United States Postal Service to Questions 1-5 of Presiding Officer's Information Request No. 7, July 29, 2021 (Response to POIR No. 7); Responses of the United States Postal Service to Questions 1-6 of Presiding Officer's Information Request No. 8, August 5, 2021 (Response to POIR No. 8); Responses of the United States Postal Service to Question 1 of Presiding Officer's Information Request No. 9, August 6, 2021 (Response to POIR No. 9); Responses of the United States Postal Service to Questions 1-2 of Presiding Officer's Information Request No. 10, August 10, 2021 (Response to POIR No. 10); Responses of the United States Postal Service to Questions 1-7 and 9-19 of Presiding Officer's Information Request No. 11, August 12, 2021 (August 12 Response to POIR No. 11); Responses of the United States Postal Service to Question 8 of Presiding Officer's Information Request No. 11 (August 16 Response to POIR No. 11). Responses of the United States Postal Service to Questions 1-9 of Presiding Officer's Information Request No. 12, August 17, 2021 (August 17 Response to POIR No. 12); Supplemental Responses of the United States Postal Service to Question 2.a of Presiding Officer's Information Request No. 12 - Errata, August 19, 2021 (August 19 Response to POIR No. 12); Responses of the United States Postal Service to Questions 1-3 of Presiding Officer's Information Request No. 13, August 20, 2021 (Response to POIR No. 13).

²⁶ Rebuttal Testimony of Anita Morrison on Behalf of the American Postal Workers Union, AFL-CIO, August 4, 2021.

²⁷ Presiding Officer's Ruling Cancelling Hearing and Establishing Procedures, August 6, 2021, at 1-2 (POR No. N2021-2/6).

testimony, written cross-examination, and associated library references into the record.²⁸

Initial briefs were filed by the Postal Service and the Public Representative; additionally a reply brief was filed by the Postal Service.²⁹ The Commission also received 10 statements of position.³⁰

The record in this docket closed on September 1, 2021.³¹

III. COMMISSION LEGAL AUTHORITY

The Postal Service is required to request an advisory opinion from the Commission for proposed changes in the nature of postal services on a nationwide or substantially nationwide basis. See 39 U.S.C. § 3661(b). The Commission's rules require the Postal Service to file its request "not less than 90 days before the proposed effective date of the change in the nature of postal services involved." 39 C.F.R. § 3020.112.

Users of the mail are afforded a hearing on the record before the Commission's review is complete. 39 U.S.C. § 3661(c). The advisory opinion, based on evidence developed during hearings in accordance with 5 U.S.C. §§ 556 and 557, considers

²⁸ See POR No. N2021-2/6 at 2-3; *see also* Presiding Officer's Ruling on Designation of Responses for Inclusion in the Evidentiary Record, August 5, 2021 (POR No. N2021-2/5); POR No. N2021-2/7; Presiding Officer's Ruling Noticing Filing of Transcript and Granting Motion for Late Acceptance, August 19, 2021 (POR No. N2021-2/8). Appendix B provides a list of each written direct and rebuttal testimony entered into the record and the citations.

²⁹ Initial Brief of the United States Postal Service, August 20, 2021 (Postal Service Brief); Initial Brief of the Public Representative, August 20, 2021 (PR Brief); Reply Brief of the United States Postal Service, August 27, 2021 (Postal Service Reply Brief). Appendix C provides a list of these filings and citations.

³⁰ The 10 statements of position can be found on the Commission's website at <https://www.prc.gov/dockets/doclist/N2021-2/Statement-of-Position>. Appendix D provides a list of these filings and citations.

³¹ Presiding Officer's Ruling Designating and Taking Official Notice of Additional Materials and Closing the Evidentiary Record, September 1, 2021 (POR No. N2021-2/9).

whether the Postal Service's planned changes conform, in terms of its objectives and effects, to the policies of section 3661 and the remainder of Title 39. "The opinion shall be in writing and shall include a certification by each Commissioner agreeing with the opinion that in his judgment the opinion conforms to the policies established under this title [39]." 39 U.S.C. § 3661(c). The advisory opinion process is intended to better inform the Postal Service in its decision-making process, provide an opportunity for the public to question and challenge Postal Service assumptions, provide transparency into the decision-making and policy-development process the Postal Service undertook, and provide a different perspective for the Postal Service's consideration.³²

IV. SUMMARY OF POSTAL SERVICE PROPOSAL

A. Postal Service Request

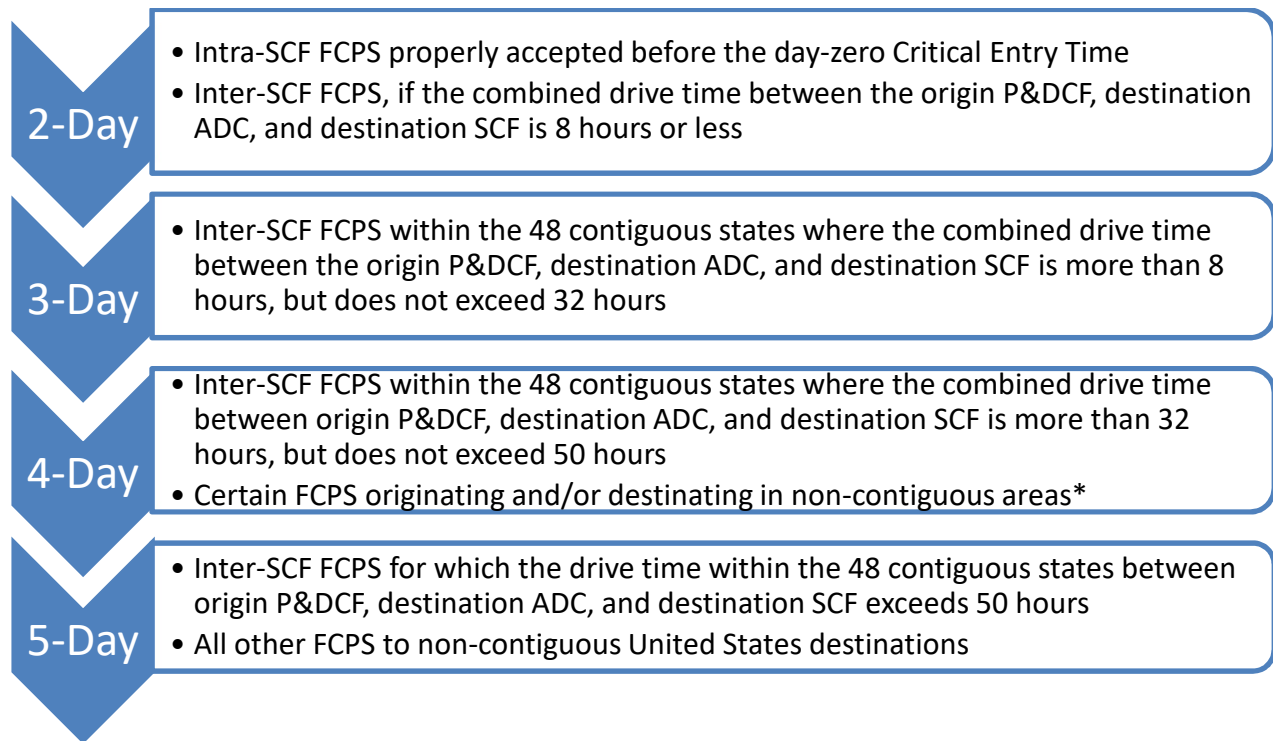
The Postal Service requested that the Commission issue an advisory opinion regarding whether certain changes in the nature of postal services would conform to applicable policies of Title 39, United States Code. Request at 1. The Postal Service states that the existing service standards for FCPS mirror the existing service standards applied to Market Dominant Single-Piece FCM (letter- and flat-shaped mailpieces). See *id.* at 3. The Postal Service's proposed changes for FCPS are similar to the changes proposed for Market Dominant FCM in Docket N2021-1 because the FCPS service standards would also be adjusted to account for additional drive time between origin and destination processing facilities (OD Pairs). See Notice at 2; see *also* Request at 3. However, the actual service standards that the Postal Service proposes to apply to FCPS would differ from those proposed for FCM. See *id.* The Postal Service plans for its proposed changes for FCPS to become effective no earlier than October 1, 2021. See Request at 1.

³² See Docket No. N2014-1, Advisory Opinion on Service Changes Associated with Standard Mail Load Leveling, March 26, 2014, at 7.

The Postal Service proposes to expand the scope of the existing 2-day service standard applied to FCPS. *See id.* at 3. For FCPS within the contiguous United States, the Postal Service proposes to narrow the scope of the existing 3-day service standard; and 4-day and 5-day service standards would apply to certain FCPS traveling longer distances between origin and destination. *See id.* Overall for FCPS volume within the contiguous United States, the Postal Service projects that approximately 25.4 percent would be subject to the proposed 2-day service standard; 43.5 percent would be subject to the proposed 3-day service standard; approximately 16.8 percent would be subject to the proposed 4-day service standard; and approximately 14.3 percent would be subject to the proposed 5-day service standard. *See Revised Request* at 4, Figure 1. The Postal Service projects that pharmaceutical volume would experience less impact from the proposed changes than other FCPS volume, estimating that almost all pharmaceutical volume currently subject to the 2-day service standard and the majority of pharmaceutical volume currently subject to the 3-day service standard would remain subject to those respective service standards. *See Request* at 5.

Specifically, the Postal Service proposes to apply the following service standards to FCPS.

Figure IV-1
Proposed Postal Service FCPS Service Standards



Notes:

* Specifically, this refers to the following:

- FCPS originating in the contiguous 48 states destined to the city of Anchorage, Alaska, the 968 3-Digit ZIP Code area in Hawaii, or the 006, 007, or 009 3-Digit ZIP Code areas in Puerto Rico.
- FCPS originating in the 006, 007, or 009 3-Digit ZIP Code areas in Puerto Rico and the destination is in the contiguous 48 states.
- FCPS originating in Hawaii and the destination is in Guam, or vice versa.
- FCPS originating in Hawaii and the destination is in American Samoa, or vice versa.
- FCPS for which both the origin and destination are within Alaska.

Request at 5.

“SCF” refers to sectional center facility. *Id.* at 3. With respect to a particular SCF, “intra-SCF” refers to volumes that originate and destinate within the 3-Digit ZIP Code areas assigned to that SCF in the Domestic Mail Manual and “inter-SCF” refers to volumes that originate outside those 3-Digit ZIP Code areas. Revised Service Standards for Market-Dominant Mail Products, 77 Fed. Reg. 31,190, 31,194, n.12 (May 25, 2012) (codified at 39 C.F.R. part. 121). “P&DCF” refers to processing & distribution center or facility. Request at 3. “ADC” refers to area distribution center. 77 Fed. Reg. 31,192.

Source: Request at 3, 5; Notice of Filing Designated Materials and Declaration Attesting to the Proposed Record Material for United States Postal Service Witness Stephen H. Hagenstein, August 10, 2021, at 8-9 (Revised USPS-T-1).

The Postal Service states that attempting to meet the existing service standards has led to high costs, transportation inefficiencies, and difficulties in providing reliable and consistent service performance. See Request at 6. The Postal Service explains that transporting FCPS by surface (trucks) is more reliable and cost-effective than air transportation. *Id.* The Postal Service asserts that the proposed changes would allow the Postal Service to use surface rather than air transportation for more FCPS volume between additional Postal Service OD Pairs. *Id.* The Postal Service states that the proposed changes could generate a net improvement to the Postal Service's finances of approximately \$42 million annually,³³ when considering transportation cost savings and the Postal Service's projection that the proposal would not materially impact FCPS volumes. *Id.*

The Postal Service asserts that implementing the proposed changes would enable it to: provide more reliable and consistent service performance, improve its ability to run according to its operating plans and optimize its surface transportation network, increase its use of more cost-effective air carriers for volume that will continue to be transported by air (such as volume destined for non-contiguous areas), achieve significant cost savings due to the creation of a more efficient transportation network, and implement future operational benefits. See *id.* at 6-9. It adds that the proposed changes are a key component of the Postal Service's 10-Year Strategic Plan, intended to achieve financial stability and service excellence. *Id.* at 9.

Further, the Postal Service asserts that the proposed changes would conform to the policies of Title 39, United States Code. See *id.* at 9-12. The Postal Service discusses how the proposed changes would continue to satisfy the universal service provisions appearing in 39 U.S.C. §§ 101, 403, and 3661(a) under the proposed service

³³ The Postal Service notes that "[t]his figure only considers the additional transportation savings that are generated by the expansion of the transportation window for FCPS in conjunction with First-Class Mail, as compared to the results of only expanding the transportation window for First-Class Mail and end-to-end Periodicals (as presented in Docket No. N2021-1)." *Id.* at 8.

standards.³⁴ The Postal Service also asserts that the proposed changes would not impair compliance with the policies of 39 U.S.C. 3633, which govern the financial performance of Competitive products. See Request at 11-12.

B. Witness Stephen B. Hagenstein Testimony

Witness Stephen B. Hagenstein serves as the Director of Logistics Modeling and Analytics at the Postal Service, where his office provides analytics and insights to help the Postal Service review scenarios, plan for future needs, and make strategic decisions. Revised USPS-T-1 at i. His testimony discusses the proposed service standard changes, their benefits, and how they would affect current mail volume in the contiguous United States.

Witness Hagenstein explains that the Postal Service's current abilities to meet existing service standards leave room for improvement. *Id.* at 1. He states that the Postal Service seeks to add up to two additional days for FCPS in order to improve its service capabilities and achievement of service standards, reduce mail transportation costs, and enhance the reliability of the mail. *Id.*

Witness Hagenstein explains that the proposed changes will allow the Postal Service to increase the volume of FCPS moved by surface transportation, which he states is more cost-effective and more reliable than air transportation. *Id.* at 2. He states that "historical service performance measurements indicate that volume transported via surface modes has better on-time performance than volume transported by air." *Id.* He states that air "carriers' flight schedules can be volatile and subject to last-minute changes based upon weather delays, network congestion, and air traffic control ground stops." *Id.*

³⁴ See *id.* at 9-11. The Postal Service observes that the Commission has concluded that the universal service obligation extends to Competitive products. See *id.* at 9 n.1 (citing Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly*, December 19, 2008, available at <https://www.prc.gov/docs/61/61628/USO%20Report.pdf>).

Witness Hagenstein explains that “[d]elays and schedule alterations occur less with surface transportation, improving its overall on-time reliability.” *Id.* He states that the “current average utilization of surface transportation capacity is 42 percent.” *Id.* At these levels, he observes that ample capacity to absorb volume from air transportation exists. *Id.* at 2-3. He asserts that the capacity of the surface transportation network to absorb volume from air without negative effects from weather delays and ground stops makes it more reliable. *Id.*

Witness Hagenstein anticipates that the proposed service standard changes will decrease the need to use more expensive air cargo transportation carriers rather than less expensive commercial air carriers for mail routes that include non-contiguous United States or territories. *Id.* at 5. He further anticipates that its proposed changes would enable it to reduce air transport costs by “adding flight schedule flexibility that does not exist with the current service standards.” *Id.*

Witness Hagenstein discusses the existing and planned changes to the service standards. *Id.* at 5-9. He explains that the current 2-day service standard applies to FCPS volume within a 6 hour drive time between the origin P&DCF and destination SCF, and that a 3-day service standard applies to all other FCPS volume within the contiguous United States. *Id.* at 6-7. He states that the “[c]urrent FCPS service standards account for surface transit times with respect to two-day service standards, but not for service standards of three or more days.” *Id.* at 9. He asserts that “[i]n practice, the three-day service standard is achievable only by forcing the Postal Service to prioritize air transportation, which is both more costly and less reliable than surface transportation.” *Id.* at 10.

Witness Hagenstein provides an overview of the current mail transportation logistics, noting that the Postal Service currently employs two primary modes of transportation for the delivery of mail and packages: air and surface transportation. *Id.* at 11. He explains that time and cost are determining factors for whether the Postal Service transports volume by air or by surface. *Id.* at 14. He states that the Postal

Service will transport volume by air if transporting that volume by surface would not meet the applicable service standard or if that volume is insufficient to justify the cost of using surface transportation. *Id.*

Witness Hagenstein states that the proposed changes “will enable the Postal Service to implement cost-saving and efficiency-improving transportation network changes.” *Id.* at 15. He adds that the proposed changes would allow the Postal Service to use surface transportation more efficiently. *Id.* First, with respect to the 2-day service standard, he states that the proposed changes will “offer customers expanded reach...because the business rule for that standard would increase from a six-hour to an eight-hour drive time” which will “enable almost five percent of FCPS volume to experience a shorter service standard than that [is] currently in place.” *Id.* He asserts that “[w]hile this will impact the Postal Service’s ability to adopt efficiency-enhancing measures for this volume, it does so only modestly, and the Postal Service has determined that providing an expanded 2-day reach is an important factor in the highly competitive package delivery market.” *Id.* Second, with respect to the 3-day service standard volume, he proffers that expansion of the available time in the transit window increases opportunity to route volumes more efficiently. *Id.* at 16. He states that the proposal to decrease the transit window time from 38 hours (or less) to 32 hours (or less) will:

[A]dd sufficient time to allow for efficiency-increasing measures, such as (a) increasing the use of transfers via aggregation sites and surface transfer centers (STCs), (b) combining trailer loads for one destination with loads for other destinations (load sequencing), or (c) routing ‘multi-stop’ lanes where [it] could pick up volume from multiple origins along the line of travel for final destination.

Id. Third, he states that adding a 4-day service standard for FCPS “would have similar efficiency-increasing effects” and “significantly extends the surface transportation reach capability and allows for more efficient surface routings and capacity utilization.” *Id.* Finally, he asserts that adding a 5-day service standard will allow the Postal Service to

shift additional volume from the air transportation network to the “more economical and reliable surface transportation network.” *Id.* at 16-17.

Witness Hagenstein explains that, under the Postal Service’s proposal, 64 percent of FCPS volume will retain its existing service standards and almost 5 percent of volume will be upgraded from a 3-day to a 2-day service standard. *Id.* at 38. He expects that the proposal would enable approximately 28.2 percent of current FCPS volume to shift from air transportation to surface transportation.³⁵

Witness Hagenstein notes that the network changes would require “[m]inor processing changes” to the Postal Service’s mail processing operations, but the Postal Service anticipates that those modifications would “improve efficiencies in the processing centers” and thus “reduce workhours, but not to a degree anticipated to impact employee complement.” Revised USPS-T-1 at 17-18.

Witness Hagenstein describes the methodology used to analyze the potential impact of the service standard changes to the surface transportation network. *Id.* at 18-32. He states that logistics industry optimization software, Blue Yonder© Transportation Modeler (TMOD), was used to model network scenarios.³⁶ He explains that the TMOD software was instructed to create optimal routings to move modeled volumes in the network while minimizing transportation miles. *Id.* at 22. He adds that in order to ensure comparative analysis of results, the modeling was an iterative process.

³⁵ Initially, the Postal Service estimated that the proposal would enable approximately 31 percent of FCPS volume to shift from the air to the surface transportation network, based on current air FCPS volume. See USPS-T-1 at 18. On July 2, 2021, the Postal Service filed revisions to Library References USPS-LR-N2021-2/1, USPS-LR-N2021-2/4, USPS-LR-N2021-2/NP1, and USPS-LR-N20201-2/NP2. See Notice of Revised Library References. At the same time, the Postal Service filed revised versions of certain pages of the Request and the witness testimonies. See Errata to Request and Testimony. The Postal Service’s revisions included a change in FCPS volumes projected to divert from the air to the surface network. See Library Reference USPS-LR-N2021-2/NP1, Excel file “FCPS Transportation Savings-NonPublic.Rev.7.2.2021.” However, page 18 of USPS-T-1 was not included among revised pages of USPS-T-1 testimony. See Errata to Request and Testimony at 6, 15, 34-35, 37-38, 41; see also Revised USPS-T-1 at 18.

³⁶ *Id.* at 18. See Section VII.D. for a more detailed discussion and analysis of the modeled network scenarios.

Id. at 18-19. The iterative process first created a model to optimize the current surface OD Pairs, then introduced current air OD Pairs into the model, and finally analyzed cost effectiveness of the model's routing results for current air OD Pairs.³⁷

In further describing the modeling process, witness Hagenstein provides the inputs used, the proposed service standard assignment rules, the assumptions made, and constraints of the modeling. *Id.* at 20-32. He explains that October 2020 volume was used for FCPS, while the rest of the modeled volume was for March 2020.³⁸ The March volume was used because this month is traditionally “not skewed by holiday impacts.” *Id.* Six consecutive days of volume were modeled (pertaining to the second highest Wednesday of the month, rather than to weekly—Monday through Saturday—volume) “to allow efficient connection throughout the end-to-end network.” *Id.* at 20-21.

Based on the modeling, witness Hagenstein projects that the “percent of 3-digit [ZIP Code] OD Pairs³⁹ subject to two-day and three-day service standards changes from 9.1 and 90.9 percent to 14.8 percent and 57.4 percent, respectively.” *Id.* at 33. He also expects that the “percentages of 3-digit [ZIP Code] OD pairs newly subject to four- and five-day service standards [is] 19.2 and 8.6 percent, respectively.” *Id.* He explains that the:

[P]ercentage of FCPS volume subject to a two-day service standard increases from 20.6 percent to 25.4 percent; and the percentage of volume subject to a three-day service standard decreases from 79.4 percent to 43.5 percent. The model projects 16.8 percent of volume to be subject to a four-day service standard; and 14.3 percent of volume to be subject to a five-day service standard.

³⁷ *Id.* at 19. The evaluation involved comparing the cost of a surface trip to the cost associated with transporting corresponding volumes via the air transportation network. *Id.*

³⁸ *Id.* at 20. More precisely, witness Hagenstein explains that all volume other than FCPS is based on March 2019 WebODIN (renamed from Origin Destination Information System (ODIS)) data and is scaled to March 2020. *Id.*

³⁹ While the transportation model optimized routings for OD Pairs (*i.e.*, origin P&DC; destination ADC; destination SCF pairs), witness Hagenstein presents changes in service standard assignments in terms of 3-Digit ZIP Code OD Pairs. A 3-Digit ZIP Code OD Pair refers to 3-Digit ZIP Code area of mail origin to 3-Digit ZIP Code area of mail destination pair.

Id. at 34. He notes that 99.8 percent of FCPS presently subject to a 2-day service standard would remain as 2-day, and 54.7 percent of FCPS subject to a 3-day service standard would remain as 3-day. *Id.* Witness Hagenstein notes that “[t]he model projects that in most circumstances pharmaceutical volume would be less impacted by the proposed service standard changes than other FCPS volume.” *Id.* at 35. He also concludes that under the proposed service standards, 26.7 percent of FCPS volume is expected to be transported by air and 73.3 percent is expected to be transported by the surface network. *Id.* at 37.

Witness Hagenstein asserts that the Postal Service has utilized appropriate data sources and modeling techniques to assess the impact of the proposed service standard changes on transportation time and surface transportation network efficiencies. *Id.* at 38. While he states that the modeling described in his testimony demonstrates that the proposed changes would lead to a more cost-effective and efficient transportation network, he also acknowledges the modeling limitations, which he notes will necessitate significant post-processing work by transportation planners who will finalize modeled routings into actual routings that can be implemented. *Id.* at 32, 38.

Witness Hagenstein states that the Postal Service considered the impact of the changes on all relevant stakeholders. *Id.* at 38. He observes that, in some instances, the proposed changes will impact customers by “increasing the amount of time it would take to deliver a piece to a recipient.” *Id.* He explains that in order to mitigate any harm from this change, the Postal Service will work to inform retail consumers about the changes. *Id.* He states that the “changes will not directly impact the Postal Service’s workforce.” *Id.* at 39.

Regarding the impact on commercial air and surface transportation suppliers, witness Hagenstein states that the “Postal Service anticipates that the proposed changes would reduce the volume of FCPS carried by commercial air contractors...and cargo air contractors” while increasing the use of surface transportation suppliers. *Id.*

at 39. He states that the Postal Service anticipates that “there will likely be fewer total expenses related to contracted transportation of mail.” *Id.* at 39-40. He further states that the “Postal Service will work with its contractors to ensure that changes are communicated effectively and that negative impacts on suppliers from abrupt changes are minimized.” *Id.* at 40.

In addition, witness Hagenstein asserts that the proposed changes are consistent with the policies and requirements of Title 39. *Id.* at 40. He states that the Postal Service has designed its proposal with certain intended objectives, such as:

[S]eek[ing] to enhance the value of postal services to both senders and recipients; to preserve regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining; and to reasonably assure Postal Service customers of delivery reliability, speed, and frequency consistent with reasonable rates and best business practices.

Id. He further states that the Postal Service has taken into account all necessary and appropriate factors. *Id.* at 40-42.

C. Witness Michelle Kim Testimony

Witness Michelle Kim serves as the Director, Cost Systems and Analysis for the Postal Service, where her “office is responsible for the design, development, operation, and enhancement of the ongoing national statistical sampling systems for distributing costs to products.”⁴⁰ Her testimony describes “the methodology that the Postal Service has used to estimate the expected cost savings resulting from the proposed changes in service standards” and presents “the overall estimated change in cost and the additional cost impact of some potential future savings opportunities.” Revised USPS-T-2 at iii.

⁴⁰ Notice of Designated Materials, and Notice of Filing of Declaration Attesting to the Proposed Record Material, for United States Postal Service Witness Kim, August 10, 2021, at i (Revised USPS-T-2).

Witness Kim asserts that the proposed changes will reduce the FCM and FCPS pounds flown by 61.2 percent. *Id.* at 3. She states that the “reductions will be spread across multiple carriers.” *Id.* She explains that “air transportation costs are, for the most part, fully volume variable.” *Id.* at 4. “Thus, for each carrier, the percent capacity reduction...is multiplied by the total cost in order to calculate the cost savings that will result from this change in capacity.” *Id.* Using this method, she expects that the Postal Service will save \$304 million per year in air transportation costs, with an additional \$15 to \$98 million savings possible as a result of reducing reliance on higher-cost charters. *Id.*

Because of the shift away from the air network, witness Kim states that the proposed change will result in an increase in required surface capacity to handle the additional FCPS volume. *Id.* at 5. She asserts, however, that “the change in service standards will also enable optimization of the network to transport the volumes more efficiently, which will offset this increase from the handling [of] additional volume.” *Id.*

In combining the impacts to the surface network capacity for the several different contract types, witness Kim expects that the Postal Service will save \$10 million per year in purchased highway transportation costs. *Id.* at 7-8. She also notes that, based on witness Hagenstein’s projection of reduced capacity from the streamlining of the transportation network, the Postal Service will also see an additional \$62 to \$116 million in savings. *Id.* at 8. In total, she estimates that the proposed changes will result in a total annual cost savings of \$314 million for purchased transportation. *Id.* at 8-9. She notes, however, that these savings “are the result of a combined model of both FCM and FCPS service standard changes being implemented together,” and that the FCPS-only savings is \$42 million. *Id.* at 9.

D. Witness Thomas J. Foti Testimony

Witness Thomas J. Foti serves as the Vice President of Product Solutions for the Postal Service, where he oversees “the management of product lines and services,

including the development of strategies, policies, and business plans.”⁴¹ His testimony describes the lightweight package landscape and the volume impact expected from the proposed service standard changes. Revised USPS-T-3 at 2.

Witness Foti explains that the FCPS product is a competitive, lightweight, under-one-pound shipping product that consists of Retail (FCPS-Retail) and Commercial (FCPS-Commercial) price categories. *Id.* at 1, 3. FCPS-Retail packages must weigh less than 13 ounces and are shipped from Post Office locations, while FCPS-Commercial packages may weigh up to 16 ounces and are available to commercial and online customers. *Id.* at 3.

Witness Foti explains that “[d]uring the pandemic, the package market has experienced significant e-commerce growth due to changes in consumer behavior and expectations” that led to an increase in the Postal Service’s Shipping and Package volumes of 18.8 percent in FY 2020. *Id.* at 4. According to witness Foti, the Postal Service expects “this new normal within e-commerce to sustain package volumes at elevated levels” going forward. *Id.*

Witness Foti asserts that the top driver of satisfaction for shipping customers in FY 2020 was reliability. *Id.* at 5. Thus, he explains that as the Postal Service improves its shipping reliability for the FCPS product, the “opportunity exists to capture additional package volume and drive incremental market share.” *Id.*

Witness Foti notes that, historically, from FY 2014 to FY 2019, FCPS volumes have grown approximately 10 percent each year but that in FY 2020, FCPS volumes increased by 32.2 percent. *Id.* at 1, 5. Witness Foti states that “[t]he Postal Service projects a modest increase in FCPS volumes, driven by its competitiveness in both price and service.” *Id.* at 5.

⁴¹ Notice of Designated Materials, and Notice of Filing of Declaration Attesting to the Proposed Record Material, for United States Postal Service Witness Foti, August 10, 2021, at i (Revised USPS-T-3).

Witness Foti explains that the Postal Service intends “to shift portions of [FCPS] volumes to an enhanced ground network to improve on-time reliability for [its] customers and reduce costs in [its] networks.” *Id.* at 6. Citing to witness Hagenstein’s testimony, witness Foti explains that “approximately 31 percent of current FCPS volumes with a 3-day service standard would have a 4-day or 5-day service standard,” while “[f]ive percent of current FCPS volumes with a 3-day service standard would upgrade to a 2-day service standard,” leaving “64 percent of FCPS volumes with unimpacted service standards.” *Id.*

According to witness Foti, the results of the Postal Service-commissioned survey of FCPS-Commercial users (FTC Survey) demonstrate that if FCPS volume that was shipped farther distances “slowed by 1 to 2 days, but if on-time performance were to increase to 95 percent,” current FCPS volumes would be maintained due to FCPS’ “highly competitive prices and improved reliability in meeting service expectations.” *Id.* at 6-8. Witness Foti notes that survey respondents “most frequently cited price as the primary reason for using FCPS,” and that the majority of respondents stated that “they would maintain, or in some cases, increase FCPS volumes with these proposed changes.” *Id.* at 7-8. He also asserts that the Postal Service expects to maintain current volumes for FCPS-Retail given its prices, expected improved reliability, and “the convenience to retail customers of accessing [Postal Service] package products through [its] extensive retail network.” *Id.* at 8. Thus, the Postal Service estimates that there will be no net impact on FCPS volumes due to the proposal. *Id.* at 9.

V. SUMMARY OF REBUTTAL CASE

The APWU filed rebuttal testimony by Anita Morrison (APWU-RT-1), who serves as the Founding Principal of Partners for Economic Solutions (PES), a full-service urban economics consulting firm.⁴² PES analyzes the proposed changes to the FCPS service

⁴² Rebuttal Testimony of Anita Morrison on Behalf of the American Postal Workers Union, AFL-CIO, August 4, 2021, at 1 (APWU-RT-1).

standards, considering the changes by geographic location and by impact on package delivery volume. APWU-RT-1 at 2. Witness Morrison asserts that the Postal Service's analysis of the total impact of the FCPS service standard changes "mask[s] the different impacts on individual states and regions," explaining that "PES's analysis shows that the new standards will disproportionately impact the West Coast and, to a lesser extent, the East Coast." *Id.* She presents summary and maps regarding which areas would be subject to longer service standards (downgrades) or shorter service standards (upgrades) under the proposal. *Id.* at 2-7, Exhibits A-I.

With respect to the downgrades, witness Morrison states "PES calculated the percentage of three-digit ZIP code area origins from which the package delivery standard is proposed to be downgraded for each three-digit ZIP code destination area." APWU-RT-1 at 2-3. She states that downgrades would be "most extensive in southern Texas and southern Oregon," projecting that "81 to 99 percent of three-digit ZIP code areas in those geographic areas" would be affected. *Id.* at 3. She also identifies the areas that are projected to be subject to downgrades for 61 percent to 80 percent of ZIP Code areas: "[a]ll of the West Coast and most of Nevada and Idaho as well as northwest Montana and northwest and southeast Arizona." *Id.* She further identifies the areas that are projected to be subject to downgrades for 41 percent to 60 percent of ZIP Code areas: "[m]ost of the East Coast and New England, Colorado, northwestern Minnesota, western and central Louisiana, southwestern Arkansas, and the balance of Wyoming, Arizona, New Mexico and Texas." *Id.* She also identifies the areas that are projected to be subject to downgrades for less than 21 percent of ZIP Code areas: "most of the Midwest, the southwest of Georgia and the Great Plains." *Id.* Finally, she shows that 2-day downgrades (areas that are currently subject to the 3-day service standard that would be changed to a 5-day service standard) would affect 31 percent to 43 percent of 3-Digit ZIP Codes of areas in Washington, Oregon, California, Nevada, and Idaho. *See id.* at 3-4.

With respect to the upgrades, Witness Morrison's analysis shows that upgrades from the existing 3-day service standard to the proposed 2-day service standard would primarily affect the Midwest. *See id.* at 4.

Witness Morrison also presents an impact analysis based on the volume of FCPS, which she observes "shows a different geographic pattern." *Id.* For example, she opines that central Washington, most of Oregon, northern California, western and central Nevada, and northern Idaho would be subject to downgrades affecting 41 percent to 59 percent of FCPS volume. *Id.* at 4. She projects that 2-day downgrades would affect 26 percent to 32 percent of the FCPS volume in the following areas "western Washington, most of Oregon, northern and central coastal California, northwestern Nevada, southern and west central Florida, much of Connecticut, Massachusetts and Rhode Island, and small portions of New York and New Jersey." *Id.* at 5. She further projects that "upgrades in [FCPS] standards peak at 25 percent in northwest Vermont, western New York and north central Pennsylvania," and that many other areas will see upgrades to a smaller percentage of their volumes. *See id.* at 5-6.

Witness Morrison asserts that "[FCPS] standards for packages containing pharmaceuticals pose a particular concern given the nation's growing reliance on mail delivery of medicine and prescriptions." *Id.* at 6. Her impact analysis based on the volume of pharmaceutical FCPS indicates that "downgrades in the service standards of any length will be most prevalent in California, southwest Arizona, northwest Nevada, Oregon, western Washington, northwest Montana, north central North Dakota, northern Illinois, southeastern Wisconsin and Maryland's Eastern Shore, affecting more than 51 percent of packages delivered." *Id.* She explains that "[t]wo-day downgrades in the standards applying to pharmaceutical [FCPS] are less prevalent given the propensity for regional shipping." *Id.* at 7. She also opines that "improved standards for pharmaceutical packages would affect more than 50 percent of the volume in Michigan, central Iowa, eastern Missouri, southern Illinois, northern and western Kentucky,

southern Indiana, southwestern and northeastern Ohio, western Pennsylvania, western New York, northwestern Vermont and northeastern Massachusetts.” *Id.*

VI. BRIEFS AND STATEMENTS OF POSITION

Initial briefs were filed by the Postal Service, and the Public Representative; additionally a reply brief was filed by the Postal Service. These briefs and reply briefs are summarized below.⁴³

A. Briefs/Reply Briefs

1. Public Representative

The Public Representative, while not opposing the proposed changes in the Postal Service’s Request, identifies several areas of concern. PR Brief at 1. As an initial matter, the Public Representative asserts that the Postal Service misconstrues the applicable legal standard.⁴⁴ She argues that 39 U.S.C. § 3661 “does not require the Commission to provide simple approval or disapproval of a proposal, but rather requires...the Commission to provide its expert advice to the Postal Service, in conformance with the policies of the [PAEA].” *Id.*

Observing that the service standard changes proposed for FCPS in this proceeding are predicated on implementation of the service standard changes for FCM and Periodicals, which the Commission recently addressed in Docket No. N2021-1, the Public Representative cautions that the service standard changes for FCM and Periodicals “have no proven record of success, and no operational or pilot testing has occurred....” *Id.* at 12. She states that implementing both sets of changes, “without adequate testing, opens up the Postal Service to potential risks.” *Id.* at 12-13.

⁴³ Appendix C provides a list of these filings and citations.

⁴⁴ PR Brief at 2 (citing Request at 1, 12-13).

The Public Representative “cannot state with certainty that the Postal Service’s proposal supports the conclusion that the current surface network can absorb increased volumes from *both* FCM and Periodicals *and* First-Class Package Service.” *Id.* at 14 (emphasis in original). She also notes that the proposed service standard changes “do not automatically solve the service performance issues unique to surface transportation[,]” for which “numerous issues beset...reliability.” *Id.* Moreover, she states that the Postal Service “has not provided any degree of certainty” that its proposed 95 percent on-time service performance target for FCPS can be achieved in the short run. *Id.* at 14-15.

The Public Representative expresses a number of concerns with the network scenario modeling relied upon by the Postal Service in support of its Request. *Id.* at 15. She states that “a number of constraints affect the modeling[,]” which “utilizes an advanced set of heuristics” that “can produce results which are less than optimal.” *Id.* at 16. The modeling software “offers a variety of ways to approach many...business rules, and seemingly small changes can sometimes have large unexpected impacts on the results...”⁴⁵ Furthermore, “[s]everal constraints of the modeling require manual input or post-processing refinement to mitigate the impact of these constraints” *Id.* The Public Representative states that given these constraints “there is no shortage of speculation[]” with regard to the validity of the Postal Service’s modeling. *Id.* at 17. She cites an example uncovered during discovery in this proceeding, in which an input omission in the modeling produced inflated mileage reduction percentages that “had a domino effect on the testimonies of all the Postal Service’s witnesses.”⁴⁶ She asserts that “since the modeling underpins the Postal Service’s Request and proposed service standard changes, any assumptions, constraints, and iterations must be viewed critically.” *Id.* at 18.

⁴⁵ *Id.* (citing Revised USPS-T-1 at 12-20).

⁴⁶ *Id.* (citing Response to POIR No. 2, question 2).

The Public Representative questions the Postal Service's assertion that one of the most predictive drivers of customer satisfaction with respect to FCPS is reliability. *Id.* at 19. Specifically, while she finds the Postal Service's conclusions with respect to commercial mailers, which are based on survey data, to be reasonable, she finds the Postal Service's conclusions with respect to retail mailers to "lack[] any degree of supportive data." *Id.* at 19-20. She argues that it is possible that for retail mailers, customer satisfaction might be reduced as a result of downgrading the existing service standards, even if the service provided is more reliable. *Id.* at 20. She expresses concern that this could lead to decreased volume, revenue, and contribution in the long run. *Id.*

The Public Representative states that even though FCPS is a Competitive product, the Postal Service needs to be mindful of the impact any changes in service standards could have on customers that rely on the Postal Service for critical services, such as "individuals who are physically impaired, live in rural areas, and receive their pharmaceuticals only by mail." *Id.* at 20-21. She states that these customers are "more likely to be negatively impacted by the proposed service standards changes." *Id.* at 21. However, the Public Representative finds that the Postal Service's assertion that its proposed service changes will have negligible impact on pharmaceutical customers is supported by the model, which, if accurate, projects that pharmaceutical volume would be less impacted than other FCPS volume. *Id.*

The Public Representative observes that the Postal Service's projected \$314 million in cost reductions is based on both the FCM and Periodicals service standard changes addressed in Docket No. N2021-1, and the service standard changes for FCPS that are the subject of the instant proceeding being implemented together. *Id.* at 22. However, the cost savings associated with FCM and Periodicals make up the bulk of this amount. *Id.* When those are deducted, the projected cost savings associated solely with FCPS are only \$42 million. *Id.* She notes testimony concerning "potential"

cost savings associated with future NDC network optimization, but states that those cost savings estimates are still “in development.”⁴⁷

The Public Representative states that, in general terms, it is likely that the Postal Service would achieve cost savings by shifting mail volume from air transportation to surface transportation, and that moving FCPS volume to less costly surface transportation and lengthening the transportation window would provide the Postal Service with more time to utilize its network more efficiently. *Id.* at 22-23. She finds that the methodology employed by the Postal Service to calculate projected cost savings is sound, and that the Postal Service’s cost savings analysis is reasonable from a business perspective. *Id.* at 23.

Despite the foregoing, however, the Public Representative asserts that she “cannot conclusively say that the projected cost savings analysis is accurate.” *Id.* She notes that historically projected cost savings estimates by the Postal Service have not always materialized. *Id.* Furthermore, she notes that the Postal Service’s Request and the associated testimony and evidence contained quantitative errors that required revisions to cost savings estimates, reducing total savings from the proposed service standard changes for FCPS from an annual \$55 million to \$42 million. *Id.* She asserts that “*how* the proposed service standard changes are actually implemented will be the key factor with regard to the amount of cost savings that are actually realized.” *Id.* (emphasis in original). She states that she “cannot recommend that the Commission rely on the [Postal Service’s] cost savings estimates in the development of its advisory opinion.” *Id.* at 23-24.

The Public Representative suggests that if the Postal Service decides to implement the proposed service standard changes for FCPS, it’s to do so at a later date and not simultaneously with the service standard changes for FCM and Periodicals. *Id.* at 25. She also cautions the Postal Service to be “mindful of [the] tradeoff between the

⁴⁷ *Id.* (citing Revised USPS-T-2 at 9; Response to PR/USPS-T1-9-10).

cost savings expected as a result of the instant proceeding (\$42 million) and...service degradation of a highly [C]ompetitive product that currently has a net positive contribution....” *Id.* She states that “[i]f cost savings materialize for First-Class Mail and Periodicals, and should it appear that the surface transportation network can handle additional volume and on-time service performance appears reliable[,] then the Postal Service could move forward with the proposed service standard changes related to First-Class Package Service.” *Id.* at 25-26.

2. Postal Service

The Postal Service reiterates the assertions presented in the Request and revised testimonies. *See generally* Postal Service Brief; Postal Service Reply Brief. The Postal Service maintains that the proposed service standard changes for FCPS are an essential component of the Postal Service Strategic Plan, and should be evaluated within the larger context of that plan. Postal Service Reply Brief at 3; *see* n.8, *supra*.

The Postal Service states that the existing service standards for FCPS “impose and reinforce transportation network inefficiencies and high costs by compelling dependence on more expensive and less reliable air transportation for a significant amount of FCPS volume.” Postal Service Brief at 2. Additionally, the Postal Service asserts that “the constrained transportation requirements necessitated by the existing service standards prevent the Postal Service from leveraging strategies to reduce transportation costs and increase delivery-time reliability.” *Id.* By contrast, the Postal Service contends that the proposed changes would “enable the Postal Service to provide more consistent and reliable service, realize cost savings, increase utilization of transportation capacity[,]...improve transportation network efficiency[,]...[and] enable future improvements in the...mail processing network.” Postal Service Reply Brief at 3; *see* Postal Service Brief at 7-10.

The Postal Service asserts that the proposed service standard changes will reduce costs by allowing the Postal Service to shift volume from air to surface

transportation and increase efficiency. See Postal Service Brief at 11-14. However, while the proposed service standard changes will facilitate the increased use of surface transportation, they will not compel it. See *id.* at 15. The Postal Service explains that it will retain the flexibility to use air transportation “in cases where it would be more efficient or cost effective[.]” and the Postal Service “projects that over 26 percent of FCPS volume will continue to be transported by air under the proposed service standards.” *Id.*

The Postal Service argues that parties and participants criticizing its cost savings projections and its transportation model have failed to offer any alternative projections or models. Postal Service Reply Brief at 16. It explains that its model is a “decision-support tool,” which is not “intended to be dispositive” or to “capture[] all details and intricacies of the current network.” Postal Service Brief at 8-9; Postal Service Reply Brief at 19-20. Nevertheless, the Postal Service maintains that it “utilized appropriate data sources and modeling techniques...[.]” and that “the model...reveal[s] significant benefits of the added transit windows afforded by the proposed service standards.” *Id.* The Postal Service argues that the States and Cities,⁴⁸ misrepresent the record testimony and evidence by ignoring the potential cost savings associated with future reductions in charter flights and streamlining the NDC network, estimated by witness Kim to range from \$77 million to \$214 million. Postal Service Reply Brief at 18 (citing States and Cities Statement at 8; Revised USPS-T-2 at 10).

The Postal Service asserts that the proposed service standard changes will not materially impact FCPS volume. Postal Service Brief at 16; Postal Service Reply Brief at 13-15. The Postal Service cites survey data in contending that commercial shippers are likely to maintain, or even increase, FCPS volume under the proposed service standards. Postal Service Brief at 16; Postal Service Reply Brief at 14. The Postal Service states that survey respondents most frequently identified price (as opposed to

⁴⁸ Statement of Position of 17 State Attorneys General and Two Cities, August 20, 2021 (State and Cities Statement). The States and Cities Statement is summarized in Section VI.B.2., *infra*.

speed) as the primary driver for using FCPS. Postal Service Brief at 16. With regard to retail customers, the Postal Service states that “[f]or the [] same reasons, and the added convenience of the Postal Service’s extensive retail network, the Postal Service also anticipates continued growth in FCPS-Retail volumes after the proposed service standard changes are implemented.” Postal Service Brief at 16; Postal Service Reply Brief at 14-15. The Postal Service rejects criticism that it did not specifically survey retail customers, whom it asserts represent approximately 9 percent of FCPS volume. Postal Service Reply Brief at 14. The Postal Service maintains that its market research is equally applicable to both commercial and retail customers. *Id.* at 14-15.

The Postal Service asserts that the proposed service standard changes will only modestly impact customers. Postal Service Brief at 16-17. It anticipates that only 31 percent of current 3-Day FCPS volume within the contiguous 48 states will be subject to the proposed 4- or 5-day standard. *Id.* The Postal Service states that it will inform retail and commercial customers about the service standard changes “so they can set appropriate expectations for delivery times and allow orderly process adjustments.” *Id.* at 17. In addition, the Postal Service states that it “will continue to offer [the] Priority Mail product for FCPS customers that require delivery over longer distances in three days or less.” Postal Service Brief at 17; Postal Service Reply Brief at 15.

The Postal Service states that it will work with its transportation suppliers to mitigate the impact of the proposed service standard changes on the Postal Service’s transportation network. See Postal Service Brief at 17-18. The Postal Service states that it does not anticipate any reduction in its workforce consequent to the proposed changes, although it is possible that increased efficiency could reduce the need for employee overtime. *Id.*

The Postal Service asserts that the proposed changes accord with and conform to relevant statutory policies. *Id.* The Postal Service contends that while “[m]any parties fixate narrowly on delivery speed and relegate reliability, efficiency, economy, and cost control to second-tier policy objectives[,]” what the applicable statutes actually

require is for the Postal Service to balance the achievement of all of these objectives “in a manner that is operationally and financially sustainable[,]” which “cannot be done under the current service standards.” Postal Service Reply Brief at 3. It asserts that “particularly relevant to the proposed service standard changes at issue in these proceedings...is balancing prompt and economical service.”⁴⁹ The Postal Service asserts that “title 39...recognizes mail transportation as a specific power granted to the Postal Service[,]” and it has “significant discretion to determine how best to balance and fulfill these policies.”⁵⁰

The Postal Service argues that the proposed service standard changes will enable it to achieve a better balance between prompt and economical transportation, delivering significant cost savings while negatively impacting less than one-third of FCPS volume. *Id.* at 19-20. Specifically, the Postal Service states that 17 percent of volume will experience a 1-day increase in delivery time, while 14 percent will experience a 2-day increase. *Id.* at 20. On the other hand, almost 5 percent of volume will experience a 1-day improvement in delivery time. *Id.* The Postal Service asserts that “[t]he limited scope of these service changes demonstrates...careful[] consider[ation] [of] how to appropriately balance the statutory policies.” *Id.* Moreover, the Postal Service states that the “fraction” of FCPS volume that experiences a service reduction “will receive significantly enhanced service reliability, further demonstrating that the Postal Service is striking an appropriate balance.” *Id.*

The Postal Service argues that the proposed service standard changes also promote more reliable and efficient service, in accordance with 39 U.S.C. §§ 101(a),

⁴⁹ Postal Service Brief at 18 (citing 39 U.S.C. § 101(f) (“In selecting modes of transportation, the Postal Service shall give the highest consideration to the prompt and economical delivery of all mail.”)).

⁵⁰ *Id.* at 18-19 (citing 39 U.S.C. § 404(a)(1) (“The Postal Service shall have the following specific powers, among others: to provide for the...transportation...of mail....”)).

403(a), and 3661(a).⁵¹ It states that increasing the use of surface transportation “will greatly improve [FCPS] transportation reliability[,]” and “will also improve the overall efficiency of the postal transportation network....” *Id.* The Postal Service asserts that the proposed service standard changes will improve even further on service for FCPS that is “already more than adequate” within the meaning of 39 U.S.C. §§ 403(a) and 3661(a).⁵²

The Postal Service argues that 39 U.S.C. § 101(e) only applies to “important letter mail,” not to packages.⁵³ The Postal Service also argues that “for package transportation as opposed to letter mail, ‘prompt’ does not mean as fast as possible[,]” a distinction which “the law makes...expressly[;] [w]hereas ‘prompt and economical delivery’ is a paramount consideration for transporting ‘all mail,’ the principal transportation consideration for important letter mail is ‘most expeditious.’”⁵⁴ The Postal Service argues that “[g]iven the distinct application of ‘most expeditious’ exclusively to important letter mail, ‘prompt’ as applied to package mail must mean something less.” *Id.* The Postal Service states that “with respect to the required and necessary balance between speed and cost, the Postal Service offers a range of package products for customers to choose from[,] [in which] FCPS provides a particular balance, while other package products exist for those who want faster delivery.” *Id.* at 20-21.

⁵¹ *Id.* at 21 (citing 39 U.S.C. § 101(a) (“The Postal Service...shall provide...reliable, and efficient services....”); 39 U.S.C. § 403(a) (“The Postal Service shall...provide adequate and efficient postal services....”); 39 U.S.C. § 3661(a) (“The Postal Service shall develop and promote adequate and efficient postal services.”)).

⁵² *Id.* at 22 (citing 39 U.S.C. § 403(a) (“The Postal Service shall...provide adequate and efficient postal services....”); 39 U.S.C. § 3661(a) (“The Postal Service shall develop and promote adequate and efficient postal services.”)).

⁵³ Postal Service Reply Brief at 5-6 (citing 39 U.S.C. § 101(e) (“In determining all policies for postal services, the Postal Service shall give the highest consideration to the requirement for the most expeditious...transportation...of important letter mail.”)).

⁵⁴ Postal Service Brief at 20 (citing 39 U.S.C. § 101(e); 39 U.S.C. § 101(f) (“In selecting modes of transportation, the Postal Service shall give the highest consideration to the prompt and economical delivery of all mail.... Modern methods of transporting mail by containerization and programs designed to achieve overnight transportation...of important letter mail...shall be a primary goal of postal operations.”)).

The Postal Service argues that 39 U.S.C. § 3691 is inapplicable to the proposed changes in this docket because it only applies to Market Dominant products. Postal Service Reply Brief at 4-5. The Postal Service also contends, in response to statements of position received, that the source of postal funding is beyond the scope of these proceedings and the Postal Service does not have the option of ignoring its self-funding mandate, pursuant to which costs are an express operational consideration that the Postal Service must balance. Postal Service Brief at 26.

The Postal Service argues that the proposed service standard changes are not unduly or unreasonably discriminatory, as they do not meet the three-part test used by the Commission to establish a claim of undue discrimination. Postal Service Brief at 23; Postal Service Reply Brief at 8-13. Under that test, it must be demonstrated that: (1) a mailer or group of mailers has been offered less favorable rates or terms and conditions than one or more other mailers; (2) the mailer or group of mailers is similarly situated to the other mailer or mailers who have been offered the more favorable rates or terms and conditions; and (3) there is no rational or legitimate basis for the Postal Service to deny the mailer or group of mailers the more favorable rates or terms and conditions offered to others.⁵⁵

The Postal Service “disagree[s] with [the Commission’s] articulation” of the first element of the *Gamefly* test in the Docket No. N2021-1 Advisory Opinion—that “[i]t is enough[]...that a mailer be able to show a different level of service received by two mailers[]”—and contends that that articulation “is arguably confined by its terms to the

⁵⁵ Postal Service Brief at 23. See 39 U.S.C. § 403(c) (“The Postal Service shall not...make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user.”). See also Docket No. C2009-1, Order on Complaint, April 20, 2011, ¶ 4021 (Order No. 718) (articulating *Gamefly* test for establishing a claim of undue discrimination).

context of First-Class Mail and not to the context of FCPS, a service that does not carry a uniform rate, and for which distance-based zones already exist.”⁵⁶

Nevertheless, the Postal Service argues that because the proposed service standards for FCPS, like the current service standards, are based on distance (or drive time) from origin to destination, and all mailers are offered and receive the same service depending on the drive time from origin to destination, “no similarly situated customers are treated differently under [the proposed] standards.”⁵⁷ The Postal Service states “[a]t the very least, there is no basis to make such a conclusion in the abstract...[,]” because “whether shippers are ‘similarly situated’...is a fact-driven, nuanced, and complex inquiry—that is best determined on a case-by-case comparison of the relevant characteristics of the mailers.”⁵⁸

Moreover, the Postal Service argues that even if the proposed changes did treat similarly-situated mailers differently, they still accord with 39 U.S.C. § 403(c) because they advance legitimate postal policies.⁵⁹ The Postal Service states that “the differentiation of service standards based on drive time from origin to destination is rationally related to the Postal Service’s statutory mandate to provide adequate, efficient, reliable, and economical postal services[,]” and “it is well-settled that ‘the

⁵⁶ Postal Service Reply Brief at 9 (citing Docket No. N2021-1 Advisory Opinion at 175).

⁵⁷ Postal Service Brief at 23-24; Postal Service Reply Brief at 6-7, 9-11. The Postal Service also states that “focus[ing] on service standards [for purposes of evaluating the second element of the *Gamefly* test] obscures the extent to which actual service performance may differ from those standards[,]” either by failing to meet the standards or by, in some cases, exceeding them. Postal Service Reply Brief at 10. The Postal Service asserts that “downgrading service standards...should provide...chances for the Postal Service to...improve the actual service that...customers receive[,]” which will “increase the likelihood that similarly situated customers receive the same real-world level of service....” *Id.*

⁵⁸ Postal Service Brief at 24; Postal Service Reply Brief at 10-11 (citing Docket No. N2021-1 Advisory Opinion at 175-76).

⁵⁹ Postal Service Brief at 24; Postal Service Reply Brief at 12-13.

Postal Service has wide latitude in providing different levels of service to different groups of users so long as those distinctions are reasonable.”⁶⁰

The Postal Service disputes claims that veterans or rural customers will be disproportionately affected by the proposed changes, asserting that such claims are speculative and unsupported. Postal Service Reply Brief at 11-12. It asserts that the proposed changes will have a negligible impact on pharmaceutical customers, including veterans, and that the proposed changes will have similar volume impacts on both rural and urban customers. *Id.* The Postal Service asserts that following implementation of the proposed changes it will continue to comply with the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which requires that “during the COVID-19 emergency, the Postal Service—(1) shall prioritize delivery of postal products for medical purposes[,]” by “[t]o the extent feasible,...continu[ing] to give priority to the delivery of postal products (including FCPS) for medical purposes.”⁶¹ The Postal Service maintains that the majority of pharmaceutical volume will be unaffected by the proposed changes. Postal Service Reply Brief at 8.

The Postal Service asserts that the proposed service standard changes conform with the provisions applicable to Competitive products in 39 U.S.C. § 3633. Postal Service Brief at 25-26. It asserts that under the proposed changes, the FCPS product will continue to cover its attributable costs, and there is no increased risk of Competitive products being cross-subsidized by Market Dominant products or of Competitive products being unable to contribute the required appropriate share to institutional costs. *Id.*

The Postal Service rejects the suggestion that it delay implementation of the proposed changes in this docket until after it has had time to evaluate the changes to

⁶⁰ Postal Service Brief at 25 (citation and internal punctuation marks omitted); Postal Service Reply Brief 12-13.

⁶¹ *Id.* at 7-8 (citing CARES Act, Pub. L. 116-636, § 6001(c)(1), 134 Stat. 281, 505 (March 27, 2020)).

service standards for FCM. Postal Service Reply Brief at 20. It maintains that the changes to FCM and FCPS are interrelated, such that benefits accruing to one cannot be obtained in isolation from the other. *Id.* The Postal Service also rejects criticism that it failed to perform pilot testing, arguing that the complexity and interconnectivity of its transportation network makes such testing unrealistic and unreasonable. *Id.* at 21. It argues that the States and Cities' assertion that the Postal Service should seek public service appropriations rather than implement the proposed changes⁶² is a "total red herring" that is totally "unrelated to...the instant proposal." Postal Service Reply Brief at 18.

The Postal Service maintains that its proposed 95 percent on-time service performance target for FCPS is reasonable, "enabled not merely by the proposed service standard changes, but also by processing and network changes that the Postal Service expects to make...." *Id.* at 21. While the Postal Service is taking a "realistic view" of its ability to immediately achieve the target, "a recognition that results will not be instant and will occur after necessary network and other changes are made does not imply an admission that performance targets are unreliable." *Id.* at 22.

Finally, the Postal Service rejects criticism that it did not publish the proposed rule changes for FCPS in the *Federal Register*, arguing that doing so would be "duplicative and unnecessary." *Id.* at 22-23. The Postal Service argues that unlike service standards for Market Dominant products, which are covered by 39 U.S.C. § 3691 (which requires that such standards be established and revised "by regulation"), no analogous statutory provision applies to Competitive products such as FCPS. *Id.* at 23.

Based on the record, the Postal Service lists its proposed findings and conclusions. Postal Service Brief at 27-32; Postal Service Reply Brief at 24-25.

⁶² See States and Cities Statement at 9. The States and Cities Statement is summarized in Section VI.B.2., *infra*.

B. Statements of Position

The Commission received a total of 10 statements of position from 1 organization, a group of attorney generals and cities, and 8 individuals. These statements of position are summarized below.⁶³

1. National Association of Letter Carriers, AFL-CIO

The National Association of Letter Carriers, AFL-CIO (NALC) opposes the proposed service standard changes.⁶⁴ First, NALC states that “the Postal Service’s major customers and the American public have expressed strong opposition to downgrades in service[,]” which precludes “lengthening service standards for any portion of [FCPS] volume[,]...[including] pharmaceutical volume.” *Id.* Second, “the potential damage to the Postal Service’s brand [from] reducing the quality of service at a time when the agency is using its much needed expanded authority to raise postage rates[] could...trigger greater volume losses than those suggested by price elasticities calculated many years ago.” *Id.* Third, “the Postal Service’s proposal is based on the same model that was critiqued by the Commission in Docket No. N2021-1[,]” which “calls into question both the projected effect on FCPS volume and the Postal Service’s ability to achieve the projected cost savings....” *Id.* at 2-3. Finally, “as a matter of long-term strategy, even if the model used by [the Postal Service] accurately predicts possible cost savings, the minimal level of such savings...do not appear to be worth the potential damage to the agency’s brand[,]” as the projected cost savings “represent[] a fraction of one percent of current operating costs.” *Id.* at 3. NALC urges the Postal Service to reconsider the proposed changes, and advocates instead “revisit[ing] the 10-year plan...to aim...for revenue-generating product innovation[,]” as well as

⁶³ Appendix D provides a list of these filings and citations.

⁶⁴ Statement of Position of the National Association of Letter Carriers, AFL-CIO, August 19, 2021, at 2 (NALC).

“look[ing] to further public policy reforms to strengthen the Postal Service’s finances.”
Id.

2. States and Cities

The Commonwealth of Pennsylvania, the State of New York, the State of California, the State of Connecticut, the State of Delaware, the State of Hawaii, the State of Maine, the State of Maryland, the State of Michigan, the State of Minnesota, the State of New Jersey, the State of North Carolina, the State of Oregon, the State of Washington, the Commonwealth of Massachusetts, the Commonwealth of Virginia, the District of Columbia, and the City of New York (collectively, these parties refer to themselves as “States and Cities”) submit a statement of position on the proposed changes. *See generally* States and Cities Statement.

The States and Cities assert that “it appears that the Postal Service is repeating many of the[] mistakes[]” that were allegedly made with respect to a series of controversial operational initiatives the Postal Service introduced in 2020, which the States and Cities maintain “had a devastating effect on mail service.”⁶⁵ They state that the Postal Service is now “moving swiftly and without proper diligence to change postal operations and degrade service standards...for FCPS.” *Id.* at 2.

They note that FCPS “is often used to ship mail-order prescriptions and orders from online marketplaces, the latter of which are a ‘key conduit’ for small and medium-sized businesses[.]” and that in FY 2020, FCPS accounted for 25 percent of the Postal Service’s total package volume. *Id.* (citation omitted). They assert that the Postal Service’s proposal would shift nearly one-third of all FCPS volume currently subject to a 3-day standard—including 16 percent of pharmaceutical volume—to a 4- or 5-day standard. *Id.* at 5-6. They cite rebuttal testimony submitted in this docket in arguing

⁶⁵ *Id.* at 1-2. The Commission has previously discussed the operational initiatives referred to by the States and Cities in depth. *See* Docket No. ACR2020, *Annual Compliance Determination*, FY 2020, March 29, 2021, at 118-34, 144-50 (FY 2020 ACD).

that specific geographic areas would be disproportionately affected, including parts of Texas, Oregon, “[a]ll of the West Coast,” Nevada, Idaho, Montana, Arizona, Utah, Wyoming, New Mexico, North Dakota, South Dakota, “[m]ost of the East Coast and New England,” Colorado, Minnesota, Louisiana, and Arkansas.⁶⁶

The States and Cities argue that the Postal Service has failed to show that its Request is justified. *Id.* They assert that substituting surface transportation for air transportation will not mitigate processing point failures, and thus will not address low service performance. *Id.* at 6-7. They also note that the proposed business rules for FCPS differ from the business rules proposed for FCM (which the Commission addressed in Docket No. N2021-1), providing for longer drive time windows for FCPS to qualify for the 2-, 3-, 4-, or 5-day delivery standards. *Id.* at 7. They state that “[g]iven that First-Class Mail and FCPS would be moving in the same surface transportation network subject to the same constraints...it is not clear why—or how—the Postal Service is proposing to move FCPS packages...farther than First-Class Mail in the same period of time.” *Id.* In any event, they argue that “a request prioritizing packages above First-Class Mail cannot be squared with the statutory requirement that the Postal Service ‘give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.’”⁶⁷

The States and Cities note that Postal Service’s model for estimating the impact of the proposed service standard changes for FCPS is based on implementing those changes simultaneously with the proposed service standard changes for FCM. *Id.* at 8. Thus, the proposal “relies on many of the same assumptions, analysis, and modeling that the Commission already found lacking.” *Id.* at 3, 8. For this reason, they maintain that the model “likely overestimates the extent to which the proposed changes will improve transit efficiency for FCPS....” *Id.* at 8.

⁶⁶ *Id.* at 6 (citing APWU-RT-1 at 3).

⁶⁷ *Id.* (citing 39 U.S.C. § 101(e)).

The States and Cities assert that the \$42 million in annual cost savings that the Postal Service projects from the proposed service standard changes for FCPS constitutes only 0.05 percent of the Postal Service's annual operating budget. *Id.* Moreover, they note that the Postal Service's cost-savings analysis is based on a combined model that includes service standard changes for both FCPS and FCM, but, they observe, the Postal Service's cost-savings analysis with respect to FCM was significantly critiqued by the Commission in Docket No. N2021-1.⁶⁸

The States and Cities argue that instead of pursuing the proposed service standard changes in this docket, the Postal Service should seek to avail itself of statutory authority to seek appropriated funds as "reimburse[ment]... 'for public service costs incurred... in providing... postal service'...."⁶⁹ They urge the Commission to recommend that the Postal Service's Board of Governors ask Congress to appropriate such funds, which would "constitute more than ten times" the annual savings associated with the proposed service standard changes in this docket. *Id.*

The States and Cities caution against using the "anomalous" circumstances of 2020 and 2021 as a baseline for long-term planning. *Id.* They cite again to the Postal Service's operational initiatives in FY 2020, which they characterize as having "imposed sweeping changes in the face of... unprecedented challenges, [with] result[s] [that were] disastrous." *Id.* at 10. They maintain that the Postal Service should abandon the proposed changes and focus on remediating deficiencies in its service performance. *Id.*

The States and Cities argue that the proposed changes would harm their residents' interests. *Id.* They note that the proposed changes will result in downgraded service standards for 16 percent of FCPS pharmaceutical volume, which they argue will significantly harm their residents who rely on mail-order medications. *Id.* They assert that many of their residents "must turn to mail-order medications in order to get highly

⁶⁸ *Id.* at 9 (citing Docket No. N2021-1 Advisory Opinion at 66-67).

⁶⁹ *Id.* (citing 39 U.S.C. § 2401(b)(1)).

specialized prescriptions[,]” and “[i]ncreased transit time may be especially dangerous for residents whose medications require refrigeration or are otherwise sensitive to temperature changes.” *Id.* They maintain that “[f]or some, insurance companies require prescriptions to be fulfilled by [the Postal Service]...and, as such, many low-income patients cannot seek out faster alternatives.” *Id.*

They assert that the Postal Service fails to account for geographic disparities with respect to pharmaceutical volume. *Id.* at 11. They argue that such geographic disparities violate the Postal Service’s legal obligation not to “make any undue or unreasonable discrimination among users of the mails.”⁷⁰ They also maintain that slowing pharmaceutical delivery presents serious public health concerns to the States and Cities, especially in light of the ongoing COVID-19 pandemic, which has required “many[,]...including...elderly and immunocompromised residents—to turn to mail-order medications....” *Id.* They assert that “[s]lowing these deliveries when hospitals and other healthcare providers are already overwhelmed or understaffed due to the COVID-19 surge risks exacerbating the current crisis....” *Id.* They argue that “actively taking steps to slow the delivery of pharmaceuticals” also violates the CARES Act, which requires that “during the COVID-19 emergency, the Postal Service shall prioritize delivery of postal products for medical purposes.”⁷¹

The States and Cities argue that the Postal Service has failed to account for the proposed changes’ effect on specific populations, including veterans and rural communities. *Id.* at 12. They assert that many large and rural states will be disproportionately affected by the proposed changes, which they argue violates 39 U.S.C. § 101(b)’s requirement that the Postal Service “provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining.” *Id.* With respect to veterans, they note that

⁷⁰ *Id.* (citing 39 U.S.C. § 403(c)).

⁷¹ *Id.* at 11-12 (citing CARES Act, Pub. L. 116-636, § 6001(c)(1), 134 Stat. 281, 505)).

Department of Veterans Affairs fulfills a large majority of its prescriptions by mail through the Postal Service, and they assert that the proposed changes “will require millions of veterans to adjust or pay nearly twice as much (or more) for faster alternatives—if that option is even available to them.” *Id.*

The States and Cities state that the Postal Service has not issued a notice of proposed rulemaking with respect to the proposed changes in this docket, and they argue that this has deprived the public of an opportunity to comment on the proposed changes and receive an explanation from the Postal Service. *Id.* at 13-14. They assert that the instant proceeding is not an adequate substitute, “as the Postal Service’s decision to file critical information...under seal has undermined the ability of the public to evaluate the proposed changes—much less meaningfully participate in the hearings.” *Id.* at 14. They urge the Commission to recommend that the Postal Service accept public comment prior to implementing any changes to service standards for FCPS. *Id.*

The States and Cities maintain that the proposed changes in this docket cannot be evaluated in isolation, outside of the context of the Postal Service’s broader 10-year Strategic Plan with which they are intertwined, including the service standard changes for FCM and Periodicals from Docket No. N2021-1. *Id.* at 14-15. They urge the Commission to “conduct a special study, establish a public inquiry proceeding, or pursue other appropriate means to evaluate the proposed changes...within the broader context of the now-forthcoming changes to First-Class Mail service standards and the Postal Service’s Strategic Plan.”⁷² They also urge the Commission to “give itself adequate time” to evaluate the issues in this proceeding, extending, if necessary, the regulatory deadline for issuing an advisory opinion. *Id.* at 15-16.

⁷² *Id.* at 14 (citing 39 C.F.R. § 3020.102(b)).

3. Statement of Position and Comments from Individuals

Generally, individual members of the public that filed statements of position and/or comments oppose the Postal Service's proposal.⁷³ Multiple individuals emphasize their reliance on the Postal Service's speed of delivery to receive items for medical purposes.⁷⁴ Some individuals express concerns regarding the impact of the changes on rural communities and areas that lack reliable access to the internet.⁷⁵

VII. COMMISSION ANALYSIS

A. Background

First-Class Package Service is classified as a Competitive product used to ship lightweight packages.⁷⁶ First-Class Package Service is divided into segments: Retail (single-piece) and Commercial (bulk). See MCS § 2125. The vast majority of FCPS pieces are FCPS-Commercial pieces and only a small percent falls under the FCPS-Retail category. See August 12 Response to POIR No. 11, questions 13.b., 14.a.,

⁷³ See, e.g., Statement of Position from Edward Taussig, May 26, 2021 (Taussig Statement); Statement of Position from John Cowley, May 26, 2021 (Cowley Statement); Statement of Position from Lila Oshatz, May 26, 2021 (Oshatz Statement); Statement of Position from Sylvia Fellows, June 2, 2021 (Fellows Statement); Statement of Position from M. Bruce, June 22, 2021 (Bruce Statement); Statement of Position from Stephanie Ladd, June 22, 2021 (Ladd Statement); Statement of Position from Evan Wolfe, June 22, 2021 (Wolfe Statement); Statement of Position from Sharon Hamersley, June 23, 2021 (Hamersley Statement).

These filings also raise issues that are outside the scope of this Advisory Opinion, such as general dissatisfaction with the Postal Service's Strategic Plan and/or the Postmaster General, access to collection boxes, service standards and service performance of Market Dominant products, the delivery of letter mail related to elections, bills, and personal correspondence (which are sent using Market Dominant products rather than FCPS), lines at local Post Offices, and the closures of processing facilities and retail units. Docket No. N2021-2 is limited in scope to the specific changes proposed by the Postal Service in its Request. See 39 C.F.R. § 3020.102(b).

⁷⁴ See, e.g., Taussig Statement; Fellows Statement; Bruce Statement; Ladd Statement; Wolfe Statement; Hamersley Statement.

⁷⁵ See, e.g., Oshatz Statement; Bruce Statement; Ladd Statement.

⁷⁶ See Postal Regulatory Commission, (*draft*) Mail Classification Schedule posted January 25, 2021, (with revisions through March 31, 2021, available at <http://www.prc.gov/mailclassification-schedule> (MCS), § 2125.

14.b.ii. FCPS-Retail services are available at Post Offices to retail customers that wish to ship packages weighing less than 13 ounces and are sealed against inspection. See MCS § 2125. FCPS-Commercial services are available to commercial and online customers shipping packages weighing less than 16 ounces and are not sealed against inspection. See *id.* Competitive domestic negotiated service agreements (NSAs) that include FCPS products in the agreements will also be affected because the Postal Service states that “NSA FCPS domestic packages will have the same service standards as published rated packages.” Response to POIR No. 2, question 8.c.ii. Taken together, the Postal Service delivered 1.8 billion FCPS packages in FY 2020, and the product accounts for 27.5 percent of the Postal Service’s domestic package volume.⁷⁷

Additionally, the international analogs to FCPS will be subject to the applicable proposed service standard.⁷⁸ Thus, Outbound Single-Piece First-Class Package International Service, Inbound Letter Post packets, and international NSA customers will be affected in the same manner as domestic FCPS customers. See Response to POIR No. 2, question 8.c.iii. The Postal Service avers that no other products will be affected by the proposal. See Response to POIR No. 4, question 7. In summary, the Postal Service’s proposed changes in Docket No. N2021-2 only affect: FCPS, domestic and international NSAs that include FCPS products, Outbound Single-Piece First-Class

⁷⁷ See FY 2020 Public Cost and Revenue Analysis, available at <https://about.usps.com/what/financials/cost-revenue-analysis-reports/fy2020.pdf>, at 5.

⁷⁸ See Revised USPS-T-1 at iii n.2; Response to POIR No. 2, questions 8.a., 8.c.i., 8.c.iii.

Package International Service, and Inbound Letter Post packets. See Revised USPS-T-1 at iii n.2; Response to POIR No. 2, questions 8.a., 8.c.i.-8.c.iii.; Response to POIR No. 4, question 7.⁷⁹

Under the bifurcated regulatory scheme established by the PAEA, products in the Market Dominant category are defined as all products covered by the postal monopoly as well as “each product in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products.”⁸⁰ Competitive products, by contrast, are defined as all other postal products that do not fall within the Market Dominant category.⁸¹

Overall, decisions regarding the Postal Service’s Competitive products are left to the reasonable business judgment of the Governors of the Postal Service. Consequently, the Commission’s oversight role is far more limited for Competitive products. For example, the Governors of the Postal Service may establish rates and classes for all Competitive products, subject to certain price floor regulations

⁷⁹ The States and Cities question whether the Postal Service intends to change service standards for the Market Dominant products in the Package Services class of mail: Alaska Bypass Service, Bound Printed Matter (BPM) Flats, BPM Parcels, and Media Mail/Library Mail. See States and Cities Statement at 5. Such changes have not been presented by the Postal Service in Docket No. N2021-2. These products are categorized in a separate class of Market Dominant mail referred to as “Package Services” and are distinct from the Competitive product at issue in Docket No. N2021-2, FCPS. See MCS §§ 1400, 2125. Before the transfer, FCPS was categorized in a different class of Market Dominant mail referred to as “First-Class Mail” and the full product name was “First-Class Mail Parcels.” See Docket No. MC2015-7, Order Conditionally Approving Transfer, July 20, 2017, at 3, 41 (Order No. 4009); Docket No. CP2017-230, Order Approving Price Adjustment for First-Class Package Service Product, August 8, 2017, at 3-4 (Order No. 4032).

⁸⁰ 39 U.S.C. § 3642(b)(1)-(2). The postal monopoly is codified in the Private Express Statutes, which are a group of civil and criminal statutes that make it unlawful for any entity other than the Postal Service to send or carry letters. See 18 U.S.C. §§ 1693-1699; 39 U.S.C. §§ 601-606.

⁸¹ 39 U.S.C. § 3642(b)(1). While Competitive products consist largely of parcels, they also include express letters and flats and a wide variety of ancillary and non-postal products and services. See MCS Part B.

promulgated by the Commission pursuant to 39 U.S.C. § 3633, as well as notice requirements. See 39 U.S.C. § 3632. With respect to service standards, the PAEA and federal regulations require the Postal Service to give advance notice of plans to change its service standards and to submit proposed changes for the Commission to issue an advisory opinion;⁸² however, the Commission lacks the authority to enforce its advice regarding the Postal Service's proposed changes to service standards. Further, certain statutory provisions related to service standards that apply to the Postal Service's Market Dominant products do not apply to Competitive products such as: the objectives and factors governing the Postal Service's revisions of its service standards for Market Dominant products (39 U.S.C. § 3691(b-c)), the requirement that the Postal Service publish its service standards for Market Dominant products in the Code of Federal Regulations (39 U.S.C. § 3691(a)), and the requirement that the Postal Service measure and report quality of service for each Market Dominant product (39 U.S.C. § 3652(a)).

B. Roadmap of Analysis

1. Overarching Conclusion

The Postal Service's stated goals in its proposal are to: provide more reliable and consistent service performance, improve its ability to function according to its operating plans and optimize its surface transportation network, and create cost savings by allowing more time to transport FCPS at a lower expense. As a threshold matter, these goals appear reasonable. The Postal Service contends that the proposal would achieve these goals because lengthening the service standards would enable it to transport

⁸² 39 U.S.C. § 3661(b) (requiring the Postal Service to "submit a proposal [to change the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis], within a reasonable time prior to the effective date of such proposal, to the Postal Regulatory Commission requesting an advisory opinion on the change."); 39 C.F.R. § 3020.112 (requiring the Postal Service to file notice of any changes to the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis at least 90 days in advance).

more FCPS volume by surface rather than air. The Postal Service contends that surface transportation is more reliable and less costly than air transportation. The Postal Service also contends that extending the service standard will allow the Postal Service the flexibility to create a more efficient transportation network and implement future operational benefits without a material loss in FCPS volume. However, the proposal's success depends on a number of factors that the Postal Service has not demonstrated in its proposal. These factors include: successful operational implementation; achievement of consistency and reliability of service over time; reasoned assumptions with regard to demand changes; and the ability to actually achieve modeled efficiencies. In addition, because the Postal Service's proposal is a directional rather than a tactical presentation (similar to the limitations of the corresponding Postal Service's proposal applicable to Market Dominant FCM in Docket No. N2021-1⁸³), the Commission further observes that there may be other unexplored factors that may impact success.

The following sections of this advisory opinion discuss the estimated impact of the proposal on the Postal Service's service performance, financial condition, transportation network, and customer satisfaction. Based on the Commission's analysis, the Commission provides recommendations for the Postal Service to consider if it chooses to implement its proposal.

⁸³ See Docket No. N2021-1 Advisory Opinion at 145-46.

2. Service Issues Findings

The Postal Service estimates that its proposal would extend the expected time to delivery for 31 percent of total FCPS volume and would shorten the expected time to delivery for 5 percent of total FCPS volume.⁸⁴ Based on analysis of non-public data, the Commission finds that the proposed changes target FCPS volume that consistently fails to meet performance goals and thus has the most room for improvement in service performance. Response to POIR No. 4, questions 2, 13. Therefore, the proposed changes should have a positive impact on the Postal Service's ability to meet its service performance targets.

However, the Commission identifies several issues that warrant caution as the Postal Service moves to the implementation phase of its proposal. The Postal Service's estimates of the proportion of FCPS volume impacted by the proposal are based on October FY 2020 data, which may skew results that predict the impact on service for existing 2-day and 3-day FCPS volume.⁸⁵ Due to the COVID-19 pandemic, estimating service performance impacts on a model based on FY 2020 data may be unreliable. The Commission cautions that FY 2020 was not a representative year for service performance generally, and FCPS in particular, due to the COVID-19 pandemic's effect on package volume. Revised USPS-T-1 at 4. As such, the Postal Service's baseline may be less than accurate for predicting service impacts.

Further, the additional day added to FCPS service standards during the COVID-19 pandemic did not enable the Postal Service to meet its FCPS service performance

⁸⁴ The Postal Service estimates that approximately 31 percent of FCPS volume will experience a service downgrade from 3-day service, and more specifically that 16.8 percent of FCPS volume will receive 4-day service and 14.3 percent of FCPS volume will receive 5-day service under the proposal. The Postal Service estimates that approximately 5 percent of FCPS volume will experience a service upgrade from 3-day service to 2-day service. Figure 7 of Revised USPS-T-1 was not updated to reflect the percentages reported in Revised USPS-LR-N2021-2/NP2. Revised USPS-T-1 at 35.

⁸⁵ The Postal Service explains that in FY 2020 packages did not follow a historic seasonal trend due to the COVID-19 pandemic and based their model on October 2020 data instead of March 2020 data for packages. Response to POIR No. 6, question 4.a.

target in FY 2020.⁸⁶ It is not clear whether the inability to meet service standards despite an additional day was due to the rapid increase in package volume in FY 2020 or whether the Postal Service's contention that lengthening service standards will enhance the ability to meet service performance targets is unsound.

The Postal Service's contention that FCPS service performance is higher for pieces traveling on surface transportation, rather than air transportation, appears to be supported by data filed in non-public library references. See Library Reference Revised USPS-LR-N2021-2/NP2. However, the Postal Service did not provide more detailed FCPS service performance data by transportation mode, disaggregated by 2-day and 3-day volume, for evaluating the service performance differences between transportation modes.

The Postal Service is required by the CARES Act to prioritize the delivery of postal products for medical purposes during the COVID-19 emergency.⁸⁷ This appears to be unaccounted for in the Postal Service's projected impact of the proposal. The Postal Service also fails to account for the potential challenges of acquiring adequate surface transportation due to a shortage of truck drivers. Because the Postal Service does not include any firm estimates for when it will meet its service target under its proposed changes, and it does not include any interim service targets, it is unclear when the Postal Service plans to realize the full service impact of its proposed changes.⁸⁸ The Commission finds that relaxing the existing service standards may put the Postal Service in a position to improve service performance, but service reliability will require across the board operational improvements. The Postal Service has not

⁸⁶ See Docket No. ACR2020, *Analysis of the Postal Service's FY 2020 Annual Performance Report and FY 2021 Performance Plan*, June 2, 2021, at 35-36 (Docket No. ACR2020 FY 2020 Analysis); Revised USPS-T-1 at 1 n.4.

⁸⁷ Pub. L. No. 116-136 § 6001(c) (2020).

⁸⁸ Response to POIR No. 4, question 9.b.ii. Over 2 months after the initial filing, witness Hagenstein relayed his expectation that the Postal Service would set an interim target for FCPS. See August 16 Response to POIR No. 11, question 8.

provided details on how or when it intends to accomplish such improvements. In terms of customer segments impacted, the Postal Service projects that approximately 16 percent of pharmaceutical FCPS volume that currently receive 3-day service will experience a downgrade to 4-day or 5-day service. See Response to APWU/USPS-T-1-12. The Postal Service did not explore the impact of its proposal on recipients of pharmaceutical FCPS volume. The Postal Service's response to questions regarding this issue is that shippers could switch to Priority Mail to maintain the service standard that they currently receive. See Response to POIR No. 6, question 5.b.

To analyze the Postal Service's claim that moving mail from air to surface will improve service performance, the Commission evaluates root cause data provided by the Postal Service and provides additional detail in a non-public technical appendix to this Advisory Opinion. See Non-public Appendix.

3. Financial/Savings Findings

The Commission finds that the Postal Service's estimated cost savings may be inflated. The Postal Service has not fully developed its charter carrier and NDC network optimization cost estimates and additionally, several of its underlying assumptions appear untenable. The Postal Service tends to rely heavily on the achievement of cost savings related to changes proposed in Docket No. N2021-1, which are based on an outlier year (FY 2020) when costs and transportation modes were in flux compared to prior years. For example, the projected cost savings for surface transportation in Docket No. N2021-1 are dependent on usage of underutilized capacity. If the Postal Service does not achieve transportation route optimization, cost increases would negatively impact the projected savings for surface transportation for FCPS. Moreover, it is unclear whether the cost savings realized would outweigh the additional costs of optimizing the NDC network.

Further, the Commission finds that even if the Postal Service's cost saving estimates prove to be accurate, the proposal would not substantially affect the Postal Service's financial condition.

The Commission recommends that the Postal Service ensure that any savings realized are balanced with maintaining quality and customer satisfaction. The Postal Service should develop metrics to evaluate the savings associated with the individual components of its plan. Such metrics should include, but not be limited to, operating plan compliance and delayed volumes. See August 12 Response to POIR No. 11, question 6. Additionally, the Postal Service, before implementation, should consider whether any potential loss in volume caused by the proposed changes negate the level of potential savings to be realized. See Sections VII.B.3. and VII.D.2.b.3., *supra*.

Finally, the advisory opinion process is designed to allow for public vetting of the Postal Service's proposal. As such, the Postal Service may continue to refine its earlier findings in response to issues raised during the process. However, in the instant case, the Postal Service filed several errata revising its initial cost savings estimates downward in the middle of the advisory opinion process. In order to improve confidence in the cost-benefit analysis set forth by the Postal Service, the Commission recommends that the Postal Service create an auditing process for its filings prior to publishing them.

4. Transportation Modeling Findings

The Commission finds that the transportation modeling results, which were presented by the Postal Service to facilitate its analysis, are not fully developed. The Postal Service accomplished the optimized network's efficiencies not only by the assumed implementation of the more relaxed service standards for FCM and FCPS, but also by assuming a more efficient trip structure. The Postal Service's model has several limitations that make it unrepresentative of the current operational reality, such

as reduced complexity of business rules, simplified assumptions, and lack of accounting for the actual network's operational constraints.

The Commission finds that once these modeling limitations are accounted for, the final network that will be implemented will likely be less efficient than the Postal Service's projections. The Commission also finds that efficiently structured trips (*i.e.*, trips with stops at multiple origins, or multiple destinations, or at volume aggregation sites) are logistically complex, and have not been operationally tested. In order to achieve the modeled efficiencies, including trip consolidation, overall network mileage reduction, and improved capacity utilization, the redesigned transportation network would require timely operations at all points along the line of travel to the final destination. For example, pairing of volumes at aggregation sites will depend on all inbound transportation arriving at transfer sites on time (and with all committed volumes),⁸⁹ and it will depend on timely volume transfers, in order to enable pairings of volumes as planned, and timely departures of outbound transportation to meet destination Critical Entry Times (CETs). Less than optimal postal operations (*i.e.*, operations other than modeled) may further reduce network efficiencies from those modeled.

The Commission's analysis reveals that a significant portion of the modeled efficiencies in the Postal Service's optimized network is accomplished in the baseline network,⁹⁰ which is subject to the existing service standards, and which forms the basis of the Postal Service's transportation modeling. The Commission's finding is supported by the baseline network being almost indistinguishable from the optimized network – and markedly different from the actual inter-SCF network – in terms of trip structure,

⁸⁹ Committed volumes refers to all volumes scheduled to share transportation from origin to aggregation sites for consolidation.

⁹⁰ The "baseline" network discussed in the advisory opinion refers to the baseline scenario modeled by the Postal Service using the logistics industry optimization software, Blue Yonder© TMOD. It does not refer to the actual and current postal network. As described in this document, there are significant differences between the data for FY 2020 and the descriptive statistics for the baseline network.

mileage distribution, and average trip length. Consequently, the Commission concludes that the basis of the Postal Service's transportation analysis may be unrealistic, and its surface network impact projections and estimated cost changes potentially misleading and inaccurate. A more meaningful presentation of the transportation impact analysis would have involved finalized network routings, mileages, and trips, and would have referenced actual network routings, mileages, and trips to determine projected changes.

The Commission concludes that a simultaneous implementation of the FCM and FCPS service standard changes presents the potential for increased network efficiencies and for cost reduction. However, the Postal Service has not demonstrated that it is operationally feasible to run the complex surface transportation network modeled in the instant proceeding and achieve the results promised.

5. Customer Satisfaction Findings

The Postal Service believes that the proposed service standard change will reinforce the value of FCPS as a reliable choice for end-to-end shippers. The Commission finds this argument reasonable, but it notes that increased competition in the parcel market could dampen the Postal Service's ability to maintain current FCPS-Commercial and FCPS-Retail volumes after the service standard change.

The Commission evaluates the Postal Service's claims that it will be able to retain FCPS volumes after the proposed service standard change based on the results of the FTC Survey, which sampled 458 of its FCPS-Commercial shippers. The Commission highlights some of the technical strengths and weaknesses of the survey. For example, the Commission finds that although small- and medium-sized businesses are represented in the survey, the validity of the survey is questionable because it may not represent some of the Postal Service's largest FCPS-Commercial shippers and only represents a small fraction of the total FCPS-Commercial volume. Moreover, the Commission finds that the survey fails to address or inadequately addresses the responses of package recipients, retail customers,

marketplace shippers, and other stakeholders, which are key groups that will determine the effect of the proposed service standard change on FCPS volumes and customer satisfaction.

Finally, the Commission evaluates the Postal Service's communication strategy and the manner in which it has received and responded to feedback from stakeholders and the general public. The Commission finds that the Postal Service did not present its communication and mitigation strategies for affected customers until later in this proceeding. It recommends the Postal Service monitor the impact of the proposal on shippers' and recipients' demand and satisfaction and consider ways to address impacts for those who may be negatively affected, particularly those discrete groups of stakeholders, such as recipients, pharmaceutical companies, marketplaces, rural residents, shippers that are older and/or low-income, and small businesses.

6. Statutory Considerations

The Commission determines that the proposed changes are not facially inconsistent with the qualitative requirements of 39 U.S.C. §§ 3661(a) and 101(a-b), (e-f). The States and Cities have alleged that the proposal could potentially disproportionately impact veterans and rural communities. The Commission finds that such allegations are too speculative to violate section 101. Further, the Commission finds that FCPS packages are not being prioritized above important letter mail in violation of section 101(e).

The Commission will not require the Postal Service to file a Notice of Proposed Rulemaking for the same changes proposed in this docket, as it finds that there has been ample opportunity for the public to participate in this docket and have its interests represented by the Public Representative. The Commission has already extended the procedural schedule beyond the 90-day timeline in order to sufficiently analyze the impact of the proposed changes and declines to make a further extension.

7. Section 403 Analysis

The Commission analyzes claims of undue or unreasonable discrimination among mailers in violation of 39 U.S.C. § 403(c) according to a three-part test. First, the non-preferred mailer must be offered less favorable rates or terms and conditions than the preferred mailer. Second, both the non-preferred mailer and the preferred mailer must be similarly situated. Third, there must be no rational or legitimate basis for the Postal Service to deny the non-preferred mailer the more favorable rates or terms offered to the preferred mailer.

Here, the Commission concludes that service downgrades for pharmaceutical deliveries meet the first prong of the three part test, but fail the similarly situated and rational or legitimate basis prongs of the test. Thus, the Commission concludes that the Postal Service's proposed plan does not facially violate 39 U.S.C. § 403(c) at this juncture. However, the Commission may evaluate any post-implementation claims alleging undue or unreasonable discrimination pursuant to the complaint process set forth in 39 U.S.C. § 3662.

C. Service Performance Analysis

1. Overview

Although the instant docket is similar to Docket No. N2021-1, there are significant differences in the Commission's oversight role due to FCPS' status as a Competitive product. Because FCPS is a Competitive product, the Postal Service has wide latitude over pricing and product features. The Postal Service can choose to raise prices or change the product according to the Board of Governors' reasonable business judgement. Unlike First-Class Mail, which includes Market Dominant products, detailed service performance results for FCPS are not required in the Postal Service's Annual Compliance Reports (ACRs) and any data reported for FCPS are filed as non-public information. The FCM Parcels Retail (Single-Piece) price category was transferred from

the Market Dominant to the Competitive product list,⁹¹ beginning in September 2017. Consequently, the Postal Service began to report service performance indicators for FCPS from FY 2017 through FY 2020 under seal.⁹² The lack of detailed service performance data for FCPS limits the Commission's ability to perform analysis on service performance trends for FCPS and compare service performance results of FCPS based on transportation modes. However, data filed in non-public library references show that the Postal Service has consistently failed to meet its FCPS service performance targets.⁹³

The Postal Service recognizes that "its current abilities to meet service standards leave room for improvement." Revised USPS-T-1 at 1. It maintains that adding up to 2 additional days for FCPS would potentially enhance its service capabilities, leading to improved achievement of service standards and greater reliability. *Id.* The Postal Service aims "to achieve 95 percent on-time reliability and improve the current reach of 2-day volumes, which aligns with the key customer demand driver of reliable, consistent, on-time delivery, and the importance of regional delivery in today's marketplace." Revised USPS-T-3 at 6. The Postal Service claims that with no changes other than the proposed service standard changes, FCPS on-time service performance

⁹¹ See Order No. 4009; see also Order No. 4032.

⁹² See, e.g., Docket No. ACR2016, *Analysis of the Postal Service's FY 2016 Annual Performance Report and FY 2017 Performance Plan*, April 27, 2017, at 28 (explaining that the Postal Service would introduce a new First-Class Mail Packages (FCMP) Composite performance indicator and set the FY 2017 on-time target at 94.80 percent); Docket No. ACR2017, *Analysis of the Postal Service's FY 2017 Annual Performance Report and FY 2018 Performance Plan*, April 26, 2018, at 17 (Docket No. ACR2017 FY 2017 Analysis (observing that on-time results and targets for certain Competitive products were filed under seal); Docket No. ACR2020 FY 2020 Analysis at 35 (observing that on-time results and targets for certain Competitive products were filed under seal); Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-14 of Chairman's Information Request No. 9, February 1, 2018, question 1 (citing Docket No. ACR2017, Library Reference USPS-FY17-NP37, February 1, 2018, PDF file "USPS-FY17-NP37.Preface.pdf") (providing FY 2017 FCPS on-time results and targets); Docket No. ACR2020, Library Reference USPS-FY20-NP30, December 29, 2020 (revised May 14, 2021) (providing FCPS on-time results and targets for FY 2017 through FY 2020).

⁹³ Revised Library Reference USPS-LR-N2021-2/NP2.

results could improve by 1.95 to 5.74 percentage points. See Response to POIR No. 8, question 1.

Overall, the Postal Service projects that under its proposal approximately 31.2 percent of total volume will experience a longer service standard while approximately 4.8 percent of total FCPS volume will experience a shorter service standard.⁹⁴ Currently, the majority of FCPS volume (79.4 percent) is subject to the 3-day service standard.⁹⁵ Under the proposal, approximately 39.2 percent of FCPS volume currently subject to the 3-day service standard is expected to move to a 4- or 5-day service standard.⁹⁶ The Postal Service estimates that the percentage of FCPS volume subject to the 3-day service standard will decrease from approximately 79.4 percent to approximately 43.4 percent.⁹⁷ According to the Postal Service, the new 4-day service standard will include 16.8 percent of total FCPS volume while 14.3 percent of volume is projected to be subject to the new 5-day service standard.⁹⁸ The Postal Service further estimates that under the proposed changes, 99.8 percent of FCPS pieces currently subject to a 2-day standard will remain as 2-day, while 4.8 percent of 3-day volume will be upgraded to the 2-day service standard.⁹⁹ The Postal Service estimates that the

⁹⁴ Library Reference USPS-LR-N2021-2/4, Excel file
“10_3digit_FCPS_Public_REV_7.13.21.xlsx,” tab “3 Digit Impact,” cells E8 and E16.

⁹⁵ Library Reference USPS-LR-N2021-2/4, Excel file
“10_3digit_FCPS_Public_REV_7.13.21.xlsx,” tab “3 Digit Impact,” cells D8:D11.

⁹⁶ Library Reference USPS-LR-N2021-2/4, Excel file
“10_3digit_FCPS_Public_REV_7.13.21.xlsx,” tab “3 Digit Impact,” cells C8:C11. The Commission calculated this 39.2 percent figure as the sum of cells C10:C11 divided by the sum of cells C8:C11.

⁹⁷ Library Reference USPS-LR-N2021-2/4, Excel file
“10_3digit_FCPS_Public_REV_7.13.21.xlsx,” tab “3 Digit Impact,” cells D8:D11 and E9; see Revised USPS-T-1 at 35 (reporting these figures as 79.4 percent and 43.5 percent, respectively).

⁹⁸ Library Reference USPS-LR-N2021-2/4, Excel file
“10_3digit_FCPS_Public_REV_7.13.21.xlsx,” tab “3 Digit Impact,” cells E10 and E11; Revised USPS-T-1 at 35.

⁹⁹ Library Reference USPS-LR-N2021-2/4, Excel file
“10_3digit_FCPS_Public_REV_7.13.21.xlsx,” tab “3 Digit Impact,” cells F4 and E8.

percentage of FCPS volume subject to the 2-day service standard will increase from 20.6 percent to 25.4 percent. Revised USPS-T-1 at 35.

The data provided by the Postal Service show that historically service performance results have been better for FCPS pieces traveling on surface routes than for pieces traveling by air.¹⁰⁰ Although the Postal Service plans to leverage this increased reliability for the proposed service standard change, it acknowledges that meeting the 95 percent on-time target will depend on successful implementation of initiatives outside the scope of this advisory opinion – including hiring additional staff, installing additional processing equipment, and acquiring additional facility space for both logistics and processing operations.¹⁰¹ Although the Postal Service intends to achieve its 95 percent on-time target by the end of FY 2022 (see August 12 Response to POIR No. 11, question 7.a.), the Postal Service does not expect to meet that target during FY 2022. See Response to POIR No. 4, question 9. As such, achievement of its 95 percent on-time target appears to be largely aspirational on the Postal Service's part. The Postal Service has not conducted an impact analysis¹⁰² or calculated a confidence level for achieving its service target.¹⁰³ It acknowledges that "[t]he service standard change alone will not make the Postal Service capable of achieving the target." Response to POIR No. 4, question 9.b.i.

Impact of COVID-19 pandemic and CARES Act. As of April 17, 2020, and in response to issues regarding the COVID-19 pandemic, the Postal Service added 1 day to the service standards for all FCPS pieces. Revised USPS-T-1 at 1, n.4. In response to a POIR, witness Hagenstein states that, the Postal Service "intend[s] to eliminate the COVID+1 day in conjunction with the implementation of the new service standards, but

¹⁰⁰ Docket No. ACR2020, Library Reference USPS-FY20-NP30; Library Reference USPS-LR-N2021-2/NP2.

¹⁰¹ July 6 Response to POIR No. 1, question 4.a.; Response to POIR No. 4, questions 2.c.-2.e., 6.a; August Response to POIR No. 11, question 3.

¹⁰² July 6 Response to POIR No. 1, question 4.a.

¹⁰³ Response to POIR No. 4, question 6; August 12 Response to POIR No. 11, question 7.a.ii.

[the Postal Service is] monitoring the pandemic conditions based upon the emergence of Delta and other variants, and [the Postal Service] will adjust [their] plans if necessary.” August 19 Response to POIR No. 12, question 2.a. Therefore, this existing extension of the service standard remains in place for the foreseeable future, as the Postal Service states that it “cannot determine when the additional transportation day will be eliminated” and that the “decision to eliminate the COVID-19 day will depend on operational capability.”¹⁰⁴ Moreover, the Postal Service “will consider adding a day to our service commitment in the future for the limited time period of peak season as we have in the past for certain Competitive products, given the volume realities and related constraints during that period which make operating conditions extraordinarily challenging.” August 19 POIR No. 12, question 2.a. Consequently, the proposed changes have the potential to magnify the impact of the changes on those customers already experiencing a service standard extension.

Another pandemic-related factor affecting service standards is the CARES Act, which requires the Postal Service to prioritize the delivery of postal products for medical purposes during the COVID-19 emergency.¹⁰⁵ Pharmaceutical volume is a key component of FCPS, and the Postal Service estimates that roughly 16 percent of pharmaceutical volume would experience a slower service standard under the proposal.¹⁰⁶

2. Commission Analysis

Using witness testimony, library references, responses to interrogatories, and data from past ACRs, the Commission evaluates the Postal Service’s contention that

¹⁰⁴ Response to POIR No. 4, question 12.b.ii; see August 17 Response to POIR No. 12, question 2.a.

¹⁰⁵ Pub. L. No. 116-136, § 6011(c)(1) (2020).

¹⁰⁶ Revised USPS-T-1 at 38. For pharmaceutical volume, the Postal Service estimates that 13.7 percent of volume would experience a service upgrade and 70 percent of volume would be unaffected by the proposed service standard changes. *Id.*

changing service standards provides the potential to improve service performance. In particular, the Commission analyzes the reliability of the estimated impact of the proposal, the impact of the COVID-19 pandemic and CARES Act, the Postal Service's ability to avoid service degradation of FCPS items sent for medical purposes, and other issues. The Commission finds that although the Postal Service's proposal targets volume that consistently fails to meet service performance goals, the proposal's estimated impact is not substantiated. In its analysis, the Commission attempts to identify assumptions or gaps that may not have been fully considered in the development of the proposal.

a. Expected Impact of the Proposed Changes on Achievement of FCPS Service Performance Targets

The Postal Service contends that the revised services standards, combined with shifting more FCPS volume to surface transportation, will improve the on-time service performance of FCPS. *Id.* at 3. Based on FCPS service performance indicators filed in past ACRs, the Commission observes that the Postal Service has failed to meet its FCPS targets since FY 2017.¹⁰⁷ Of note, FCPS service performance in FY 2020 did not improve from FY 2019 despite the inclusion of an additional day in response to the COVID-19 pandemic. However, the information provided under seal by the Postal Service shows that the service performance result was higher with the additional day than it would have been if the extended service standard had not been implemented. See August 17 Response to POIR No. 12, question 2.b.

The Postal Service notes that “[t]here is substantial room for improvement in service performance vis-à-vis the goals that the Postal Service has set for itself.”

¹⁰⁷ See Docket No. ACR2020, USPS-FY20-NP30; see also Docket No. ACR2020 FY 2020 Analysis at 35-36; Docket No. ACR2019, Analysis of the Postal Service's FY 2019 Annual Performance Report and FY 2020 Performance Plan, June 1, 2020, at 27; Docket No. ACR2018, Analysis of the Postal Service's FY 2018 Annual Performance Report and FY 2019 Performance Plan, May 13, 2019, at 25; Docket No. ACR2017 FY 2017 Analysis at 18, 22, n.30.

Revised USPS-T-1 at 1. The service performance data for FCPS from FY 2017 to FY 2020 appear in the Commission's non-public technical appendix to this Advisory Opinion. See Non-public Appendix.

The Postal Service also claims that surface transportation methods have better on-time performance than air transportation methods. To more fully evaluate the service performance issues with FCPS, several POIRs were issued requesting "root cause" service performance data for FY 2020 and the Postal Service provided that data.¹⁰⁸

"Root Cause Analysis" is an analytical methodology that can be used to identify the root causes of problems in an effort to develop appropriate solutions. To perform root cause analysis for FCPS, the Postal Service uses a Package Processing Performance module within Informed Visibility (IV). See Response to POIR No. 7, question 2.a. "Root cause data" in this context are the results of the Postal Service's root cause analysis that are used as a means of determining the underlying issues contributing to service performance failures. "Root causes" are the categories the Postal Service uses in their analysis of service failures, and "root cause failures" are instances of failure where a FCPS piece misses its service standard due to one of these issues.¹⁰⁹ The root cause data refer to the amount (number of percentage points) by which on-time performance for FCPS decreased due to each specific root cause. See Response to POIR No. 10, question 1.c. The Postal Service assigns a single root cause indicator to a FCPS piece that is delivered after the applicable service standard.

¹⁰⁸ See Responses to POIR No. 7, question 2; Library Reference USPS-LR-N2021-2/NP16, July 29, 2021, Excel file "POIR No7 Q2 - FCPS root cause failures - FY20 - NP.xlsx." Additional qualitative root cause indicator information was provided in response to a subsequent request by the Presiding Officer. See Response to POIR No. 10, questions 1, 2; Library Reference USPS-LR-N2021-2/NP20, August 10, 2021, Excel file "NP-POIR10-Root.Cause.FCPS.xlsx."

¹⁰⁹ See Response to POIR No. 10, questions 1.c.-1.e.; see also Docket No. ACR2019, *Annual Compliance Determination*, March 25, 2020, at 102-05 (Docket No. ACR2019 FY 2019 ACD) (discussing use of root cause analysis for FCM).

See Response to POIR No. 10, questions 1.d., 1.e. In its analysis, the Postal Service categorizes root causes for FCPS into four phases of service: Origin, Transit, Destination, and Delivery. The Postal Service also uses the categorization “Other” for 10 root causes.

The Excel file submitted by the Postal Service presents a distribution of 142 root causes categorized by phase of service.¹¹⁰ The data reveal that there are a wide variety of service performance failures across each phase. Notably, the data provided by the Postal Service do not indicate that air transportation was a direct cause of service performance failures for FCPS in FY 2020.¹¹¹ While it is likely that various air and surface transportation issues contribute to service performance failures, the extent of the contribution of air or surface transportation issues to the final measured failure cannot be specifically identified due to the lack of granularity in the Postal Service’s root cause analyses. The FY 2020 FCPS root cause data provided by the Postal Service does not disaggregate failures specific to either the air or surface mode of transportation, does not indicate whether the measured volumes were diverted from air to surface transportation,¹¹² and does not indicate how diversion from air to surface transportation impacted service performance. Further analysis of the non-public data

¹¹⁰ The root cause data provided by the Postal Service in Library Reference USPS-LR-N2021-2/NP16 is similar to the root cause data provided by the Postal Service for Market Dominant FCM letters and flats in Docket No. ACR2020, but several of the categorizations are not exact matches. The differences between the FCPS and FCM root cause data prevent the Commission from comparing and contrasting the service performance failures for these products.

¹¹¹ The non-public information filed by the Postal Service providing an explanation for not meeting the on-time percent target levels for FCPS service performance for FY 2017 through FY 2019 do not reference air transportation. See Docket No. ACR2017, Library Reference USPS-FY17-NP37, February 1, 2018, PDF file “USPS-FY17-NP37.Preface.pdf,” at 2-3; Docket No. ACR2018, Library Reference USPS-FY18-NP30, December 28, 2018, PDF file “FY18-NP30.Preface.pdf,” at 4; Docket No. ACR2019, Library Reference USPS-FY19-NP30, December 27, 2019, PDF file “NONPUBLIC FY19-NP30 Preface.pdf,” at 3.

¹¹² The Postal Service states that over 1,800 lanes were shifted from air to surface transportation since April 2020. See August 17 Response to POIR No. 12, question 2.b.

provided by the Postal Service appears in the Commission's non-public technical appendix to this Advisory Opinion. See Non-public Appendix.

In Docket No. N2021-1 Advisory Opinion, the Commission stated:

The Postal Service's proposed changes appear to target the mail that is most likely to miss its current service performance goals. Expanding the service standard window should make it easier to meet service performance targets and moving mail from air to surface transportation could potentially lead to more efficient transportation. Regarding mail processing impacts, although the Postal Service's proposed changes may loosen pinch points within the processing network and an adjustment to the transit window time will likely add a buffer for mail processing, the proposed on-time target results may not be achievable without additional focus on underperforming Districts/Areas, processing 'handoffs,' training, and staffing issues.

Docket No. N2021-1 Advisory Opinion at 99.

The FCPS service performance data provided by the Postal Service suggest that the same broad idea is also applicable to the FCPS proposal. While the Postal Service's proposal may increase the likelihood of improving on-time service performance, achievement at the 95 percent on-time target level will require across-the-board operational improvements.

As acknowledged by the Postal Service, other operational changes such as the transition of the NDCs to Regional Distribution Centers (RDCs) and the establishment of a coast-to-coast First-Class surface network must take place in conjunction with increasing the surface transportation of FCPS in order for service performance improvements to be realized. Revised USPS-T-1 at 4. The Postal Service did not provide details on how it intends to accomplish these goals. The surface transportation changes proposed in this docket are closely linked to the surface transportation changes for Market Dominant FCM letters and flats subject to Docket No. N2021-1. The Commission's Advisory Opinion in that docket outlined concerns about the ability of the Postal Service to achieve improved service performance results through increased

surface transportation capacity utilization. See Docket No. N2021-1 Advisory Opinion at 67-68, 145-46.

While relaxing expected service windows may put the Postal Service in a position to improve service performance results, achieving service reliability will require execution, which has not been tested. The Postal Service has not conducted a study or impact analysis to determine whether its service targets can be achieved. July 6 Response to POIR No. 1, question 4.a. The Commission notes that an additional day added to FCPS service standards during the COVID-19 pandemic did not lead to the Postal Service meeting its service performance target in FY 2020.¹¹³ However, based on analysis of non-public data, the additional day added to FCPS service standards did help the Postal Service to achieve a higher on-time percent result than it would have without the additional day. August 17 Response to POIR No. 12, question 2.b.

The Postal Service acknowledges that other transportation and operational efficiencies will need to be realized in conjunction with the service standard changes in order to meet its FCPS target.¹¹⁴ Initially, the Postal Service indicated that it did not plan to set an interim target for FY 2022;¹¹⁵ however, a subsequent response from witness Hagenstein relayed his expectation that the Postal Service would set an interim target for FCPS. See August 16 Response to POIR No. 11, question 8. The Commission urges the Postal Service to set achievable interim targets and establish a timeline for when the Postal Service can meet its service targets under the proposed changes. Doing so will allow the Postal Service to identify challenges and improve customer experience. Additionally, the Commission encourages the Postal Service to pursue operational tests, even on a limited basis, if it chooses to implement the proposed FCPS changes on a national level to ensure that service improvements can

¹¹³ Docket No. ACR2020 FY 2020 Analysis at 35-36.

¹¹⁴ See Response to POIR No. 1, question 4.a.; Response to POIR No. 4, questions 2.c.-2.e., 6.a.

¹¹⁵ Response to POIR No. 4, question 9.b.ii.

be realized without sacrificing customer satisfaction. Although the Postal Service plans to continue monitoring processing delayed volumes and network delays (see Response to POIR No. 11, question 6.a.), the Postal Service has not identified a method to disaggregate the impacts of the multiple transportation and operational changes that it intends to implement simultaneously. See *id.* question 6.b. The Commission urges the Postal Service to develop a more refined measurement plan that identifies objective criteria to trigger coordinated corrective action in the event that any of the assumptions upon which the Postal Service relies fail to materialize.

b. Expected Impact of the Proposed Changes on Overall FCPS Volume

The Postal Service bases its estimates of the proportion of FCPS volume impacted by the proposal on volume data of two different time periods. Explaining that package-shaped volume did not stabilize until September and October of 2020 due to the COVID-19 pandemic, the Postal Service selected October 2020 as a representative month for package-shaped volume in the model.¹¹⁶ However, the Postal Service selected March 2020 as a representative month to estimate the proposal's impact on service for all other FCPS volumes.¹¹⁷ This baseline of using October 2020 for FCPS packages may not provide an accurate prediction of the service impact for existing 2-day and 3-day FCPS package volume because the volumes impacted by the COVID-19 pandemic may not be representative of the geographic distribution of future volumes.¹¹⁸

¹¹⁶ Response to POIR No. 6, question 4.a. The Postal Service adds that October 2020 was not a representative month for letter- and flat-shaped volumes due to the impact of the 2020 General Election. See *id.*

¹¹⁷ Letter- and flat-shaped mail are generally FCM products. The Postal Service selected March 2020 as a representative month to estimate the proposal's impact on service for all FCM letters and flats volume in Docket No. N2021-1. See Docket No. N2021-1 Advisory Opinion at 117; see also Revised USPS-T-1 at 20.

¹¹⁸ Non-public data provided in Library Reference USPS-LR-N2021-2/NP10 in Response to POIR No. 4, questions 2 and 13 suggest that the portion of 4-day and 5-day volume estimated by the model may be higher than the 31.2 percent estimate presented by the Postal Service. Library Reference USPS-LR-N2021-2/4, Excel file "10_3digit_FCPS_Public_REV_7.13.21.xlsx," tab "3 Digit Impact," cell E16.

FY 2020 was an irregular year for FCPS due to the unforeseen growth in packages as a result of the COVID-19 pandemic.

The Commission is concerned that if the future distribution of FCPS volume is more geographically dispersed, that is longer distances between origin and destination, there may be a higher percentage of volume subject to longer service windows than that estimated by the Postal Service.

The Commission observes wide volume variations throughout FY 2020 based on comparisons of quarterly Revenue, Pieces & Weight Report data for FY 2019 and FY 2020. Table VII-1 illustrates the percentage change in quarterly volume for FCPS for FY 2019 and FY 2020.¹¹⁹

Table VII-1
Difference in Quarterly FCPS Volume for FY 2019 and FY 2020

	Q1	Q2	Q3	Q4	Total
FY 2019	382,294,336	341,196,880	339,239,094	334,956,922	1,397,687,232
FY 2020	371,690,894	339,963,281	601,361,619	534,767,175	1,847,782,969
Percent Change	-2.8%	-0.4%	77.3%	59.7%	32.2%

Source: FY 2020 Quarter 1 RPW Report, FY 2020 Quarter 2 RPW Report; FY 2020 Quarter 3 RPW Report; FY 2020 Quarter 4 RPW Report.

¹¹⁹ Revenue, Pieces & Weight (RPW) by Classes of Mail and Special Services for Quarter 1, FY 2020, Compared with Corresponding Period of FY 2019, February 6, 2020 (FY 2020 Quarter 1 RPW Report); Revenue, Pieces & Weight (RPW) by Classes of Mail and Special Services for Quarter 2, FY 2020, Compared with Corresponding Period of FY 2019, May 8, 2020 (FY 2020 Quarter 2 RPW Report); Revenue, Pieces & Weight (RPW) Report by Rate Category and Special Services for Quarter 3, Fiscal Year 2020, August 7, 2020 (FY 2020 Quarter 3 RPW Report); Revenue, Pieces and Weight (RPW) Report by Rate Category and Special Service for Quarter 4, Fiscal Year 2020, November 13, 2020 (FY 2020 Quarter 4 RPW Report).

The Commission observes that FCPS volumes declined in FY 2021 quarters 2 and 3 compared to the volume in FY 2021 quarter 1. Table VII-2 illustrates the percentage change in quarterly volume for FCPS for FY 2020 and FY 2021.¹²⁰

Table VII-2
Difference in Quarterly FCPS Volume for FY 2020 and FY 2021

	Q1	Q2	Q3	Q4	Total
FY 2020	371,690,894	339,963,281	601,361,619	534,767,175	1,847,782,969
FY 2021	584,592,537	508,991,608	502,029,964	N/A	N/A
Percent Change	57.3%	49.7%	-16.5%	N/A	N/A

Source: FY 2021 Quarter 1 RPW Report; FY 2021 Quarter 2 RPW Report; FY 2021 Quarter 3 RPW Report.

The Commission finds that estimates of impact on service performance derived from a model that is based on a year that experienced precipitous growth may be over-optimistic. The Commission observes that FY 2020 was not a representative year for FCPS volume and service performance due to the COVID-19 pandemic and questions the reliability of the Postal Service's estimated impact of the proposal based on its model.¹²¹

¹²⁰ Revenue, Pieces and Weight (RPW) Report by Rate Category and Special Service for Quarter 1, Fiscal Year 2021, February 9, 2021 (FY 2021 Quarter 1 RPW Report); Revenue, Pieces and Weight (RPW) Report by Rate Category and Special Service for Quarter 2, Fiscal Year 2021, May 7, 2021 (FY 2021 Quarter 2 RPW Report); Revenue, Pieces and Weight (RPW) Report by Rate Category and Special Service for Quarter 3, Fiscal Year 2021, August 9, 2021 (FY 2021 Quarter 3 RPW Report).

¹²¹ Response to POIR No. 6, question 4.a.; August 12 Response to POIR No. 11, question 9; August 17 Response to POIR No. 12, question 4.

c. Expected Impact of the Proposed Changes on
Pharmaceutical FCPS Volume

The Postal Service estimates that approximately 16 percent of pharmaceutical FCPS volume that currently receives 3-day service will receive 4-day or 5-day service. Response to APWU/USPS-T-1-12. According to the Postal Service, 13.7 percent of pharmaceutical FCPS volume will experience a service upgrade and 70 percent of pharmaceutical FCPS volume will be unaffected by the service standard change. Revised USPS-T-1 at 38. Given that pharmaceutical FCPS is identifiable by a special service code, the Commission urges the Postal Service to continue to prioritize the handling of such items and consider expanding the use of these codes to non-NSA customers.

The Postal Service bases its estimates of impacted pharmaceutical FCPS volume on its use of Special Service Code (SSC) 401 to identify pharmaceutical products and SSC 402 to identify medical supplies. Response to POIR No. 4, question 8. Authorized pharmaceutical shippers are allowed to apply SSC 401 and SSC 402 through a NSA with the Postal Service.¹²² Although the Postal Service is required to prioritize the delivery of items sent for medical purposes pursuant to the CARES Act, and has the ability to identify pharmaceutical items and medical supplies flagged as SSC 401 and SSC 402, it does not plan to exclude pharmaceutical FCPS from the proposed service standard change. See Response to POIR No. 4 question 8; Response to POIR No. 6, question 5.a. The Commission observes that although the Postal Service did not consider excluding pharmaceutical FCPS from the proposed service standard change; it may be wise of the Postal Service to do so, particularly in light of the continuing COVID-19 pandemic. The Commission advises the Postal Service to work to enhance customers' use of these SSCs and if feasible explore expanding the customer base to whom such SSCs are available. The Commission also encourages the Postal Service to resume and expand its efforts to partner with shippers

¹²² Response to POIR No. 2, question 14.b.; Response to POIR No. 4, question 8.

to identify FCPS volumes sent for medical purposes. See August 12 Response to POIR No. 11, question 10. The Commission recommends that the Postal Service implement the necessary cross-functional teams to identify and closely monitor FCPS containing medical items so as to handle these items as expeditiously as possible, notwithstanding the published service standard, given the extended duration of the COVID-19 emergency.

d. Expected Impact of the Proposed Changes on Surface Transportation Reliability

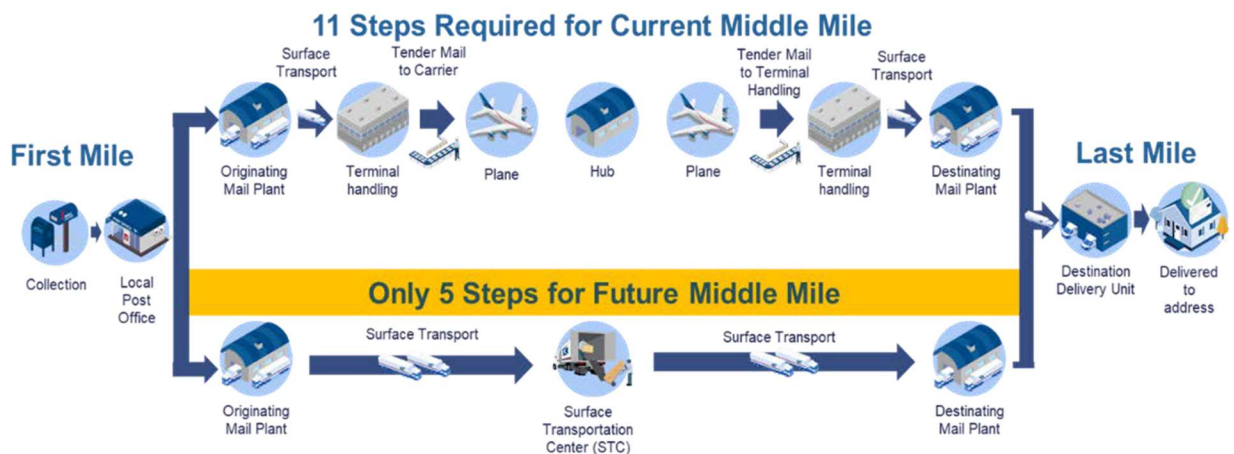
The Postal Service lists several factors that contribute to increased reliability of surface transportation relative to air transportation. First, it explains that “air carriers’ flight schedules can be volatile and subject to last-minute changes based upon weather delays, network congestion, and air traffic control ground stops.” Revised USPS-T-1 at 2. Second, the Postal Service suggests that the capacity of the surface transportation network to absorb volume from air without negative effects from weather delays and ground stops makes it more reliable. *Id.* at 2-3. On an aggregate basis, service performance results for FCPS volumes transported by surface have better reported results than for volume transported by air.¹²³

The Postal Service does not report detailed FCPS service performance data by transportation mode, disaggregated by 2-day and 3-day volume. Therefore, these data are not available for evaluating the service performance differences between transportation modes. Library Reference USPS-LR-N2021-2/NP2. However, the Postal Service states that “volume transported via surface modes has better on-time performance than volume transported by air.” Revised USPS-T-1 at 2 (footnote omitted). The Postal Service further explains that the surface transportation network can be more reliable than air transit because it reduces the “total number of touch points” for FCPS volumes. *Id.* at 3. Essentially, the Postal Service contends that fewer

¹²³ *Id.* at 1; Library Reference USPS-LR-N2021-2/NP2.

touch points reduces the potential for delay in handling the item. Figure VII-1 illustrates the Postal Service's observed differences in touch points for air versus surface transportation.

Figure VII-1
Difference in Processing for the Air and Surface Networks



Source: Revised USPS-T-1 at 3.

However, the proposal, by substituting surface transportation for air transportation, does not mitigate processing point failures. It is unclear how the proposal would address the trend of lower on-time service performance caused by processing point failures. The Commission finds that relaxing windows may put the Postal Service in a position to improve service performance, but service reliability will require execution, which has not been tested.

Notwithstanding the reduced number of touchpoints, surface transportation can experience delays due to many factors, which among others include: delays in dispatching items to the trucks, disruptive events such as extreme weather and natural disasters, and underperforming contract trucker suppliers.¹²⁴ In addition to responding to these challenges that the Postal Service routinely faces, the COVID-19 pandemic

¹²⁴ See, e.g., Docket No. ACR2019 FY 2019 ACD at 110; Docket No. ACR2020 FY 2020 Analysis at 47.

stressed surface logistic and shipping operations: increased package volume increased demand for tractor-trailer operators at the same time that these firms faced difficulties with worker absenteeism and hiring. See Docket No. ACR2020 FY 2020 ACD at 112, 117. The Postal Service acknowledges that its highway contract route (HCR) suppliers continue to face difficulty retaining and hiring truck drivers. See August 12 Response to POIR No. 11, question 2.a. The Postal Service asserts that proposed changes to the service standard will create buffer time that will better enable the Postal Service to absorb delays and allow the Postal Service to optimize its routing, thereby reducing trips and mileage. See August 12 Response to POIR No. 11, questions 4.a., 4.b., 5. While the Commission acknowledges that extending the service standard would allow for additional slack time in the network to mitigate delays, the Commission is concerned that the Postal Service's transportation plan remains directional rather than tactical in nature (similar to the limitations of the corresponding Postal Service's proposal applicable to Market Dominant FCM in Docket No. N2021-1¹²⁵), as more fully detailed in Section VII.E.2.b., *infra*.

The Commission observes potential challenges for the Postal Service in acquiring surface transportation due to a truck driver shortage. See August 12 Response to POIR No. 11, questions 1, 2.a. In instances where driver shortages have caused scheduled surface trips to be cancelled, affected mail volume is rerouted to destination via alternate routings or additional unscheduled trips are contracted. Response to POIR No. 11, question 4. The Postal Service asserts that the proposed changes will afford them the ability to reduce network mileage and trips by increasing routing efficiencies thus providing a measure of mitigation against market conditions in the trucking industry. Response to POIR No. 11, questions 2, 4. The ongoing shortage of truck drivers creates another obstacle for the Postal Service to overcome in its attempts to realize the full financial and service performance benefits of its proposal.

¹²⁵ See Docket No. N2021-1 Advisory Opinion at 145-46.

The stated goal of the Postal Service is to have more mail travel via surface transportation on fewer trucks. The Commission acknowledges that extending the service standard will give the Postal Service more flexibility to optimize routes in instances where driver shortages have caused scheduled trips to be cancelled. However, if the Postal Service is not able to achieve greater capacity utilization and decrease the number of trips, the ongoing driver shortage may increase the potential costs of additional trips.

3. Service Conclusion

The Commission notes that expanding the service standard window may allow the Postal Service to have more success in meeting its service performance targets. Additionally, shifting FCPS from air routes to surface routes has the potential to lead to more efficient transportation.

However, the Commission observes that the projected efficiency gains arising from the proposed changes appear to be minor. The Postal Service projects surface utilization to increase approximately 4 percent, from 18 percent to 22 percent. Response to POIR No. 4, question 3.b. Because the proposed changes would downgrade the service standard for about one third of total FCPS volume and roughly 16 percent of pharmaceutical FCPS volume, the Commission urges the Postal Service to carefully consider the value proposition being offered to its customers.

Although the proposal to shift FCPS pieces from air to surface transportation may reduce handling time within the processing network, with the additional buffer for processing added by adjusting the transit window, the target results cannot be achieved by the proposed changes alone. Instead, the Postal Service assumes that these changes will be paired with increases to staff, equipment, and space – and relies upon a smooth deployment for all of these changes in alignment with one another.¹²⁶

¹²⁶ See July 6 Response to POIR No. 1, question 4.a.; Response to POIR No. 4, questions 2.c-2.e., 6.a.

Therefore, the potential improvement to service performance results with less stringent windows for delivery time will rest largely on the Postal Service's execution, which is currently an unknown, as it has not conducted any operational testing or impact analysis for the changes. The Commission urges the Postal Service to closely monitor implementation to ensure that reliability and efficiency improvements are being realized.

Because so many operational improvements are needed, the Postal Service has acknowledged that it does not expect to meet or exceed the 95 percent target for FY 2022. See Response to POIR No. 4, question 9. The Postal Service has not calculated confidence levels for meeting the 95 percent target. See *id.* question 6. Furthermore, it initially declined to set an interim target for FY 2022,¹²⁷ although a subsequent response from witness Hagenstein relayed his expectation that the Postal Service would set an interim target for FCPS. See August 16 Response to POIR No. 11, question 8. The Commission advises the Postal Service to set realistic interim target(s) for service performance for FCPS and establish a timeline for when it will achieve its service performance target of 95 percent on-time delivery. This step would not only manage expectations for reliability among FCPS customers, it would also inform the Postal Service's strategy for implementing the changes past FY 2022. Doing so would also represent progress toward a goal identified by the Postal Service, "setting realistic expectations for timely and reliable mail delivery in today's environment."¹²⁸

The Postal Service indicates that it plans to implement the proposed changes on or after October 1, 2021, which is the beginning of FY 2022. Request at 1. The Postal Service expects its processing and transportation changes to evolve and progress

¹²⁷ Response to POIR No. 4, question 9.

¹²⁸ Postal Service Strategic Plan at 25; see Request at 12 (asserting that "[i]n order to remain viable and relevant, the Postal Service must implement operational and service changes consonant with realistic expectations balanced against the public's needs."); see also Revised USPS-T-1 at iii-iv (footnote omitted) (asserting that the proposal would "more realistically align[] the Postal Service's FCPS service standards with the Postal Service's operational capabilities.").

throughout FY 2022. See Response to POIR No. 4, question 9.b.i. Given the lack of operational testing¹²⁹ regarding the expansion of the service standards as well as the uncertainty of the actual impact of the proposal that adds an extra day above and beyond the extra transportation day already in place due to COVID-19,¹³⁰ the Commission urges the Postal Service to carefully evaluate its planned implementation timeframe. Particularly because the Postal Service indicated that by end of FY 2021 (September 30, 2021), it will have begun to model and analyze the NDC network more robustly, which will take approximately 4 to 6 months to complete. Response to POIR No. 5, question 7.b. Making use of these data prior to implementation of the proposed changes may put the Postal Service in a better position to achieve a more efficient transportation network. Because of the complex nature of this nationwide service adjustment, the Commission recommends that the Postal Service monitor and report actual service impact resulting from the implementation of the proposed changes.

It is also worth noting that the Postal Service's planned implementation of the changes will take effect just prior to the upcoming holiday season from approximately the end of November through December, during which the Postal Service regularly experiences peak demand for FCPS. See Response to POIR No. 6, questions 4.c.-4.d. During the holiday peak season in 2020, the Postal Service responded to a number of challenges above and beyond the typical holiday peak season due to the extreme strain that the COVID-19 pandemic placed on the entire shipping industry. See Docket No. ACR2020 FY 2020 ACD at 112, 117. The Postal Service indicates that its peak planners are working to identify opportunities to shift additional FCPS volumes from air to surface transportation. See August 12 Response to POIR No. 11, question 9.

¹²⁹ Response to POIR No. 4, question 10. While the Postal Service intends to eliminate the extra transportation day due to COVID-19 at the time it implements the new service standards, the Postal Service is not able to identify when it will eliminate that extra transportation day due to COVID-19 or the precise conditions under which the Postal Service's Executive Leadership Team would consider it appropriate to do so. August 17 Response to POIR No. 12, questions 2.a., 2.c.; August 19 Response to POIR No. 12, question 2.a.

¹³⁰ Response to POIR No. 4, question 12.

Further, due to the “extraordinarily challenging” operating conditions during the peak season, the Postal Service “will consider adding a day to our service commitment in the future for the limited time period of peak season as we have in the past for certain Competitive products, given the volume realities and related constraints during that period which make operating conditions extraordinarily challenging.” August 19 Response to POIR No. 12, question 2.a. The Commission is concerned that the Postal Service's planned timeframe may be too ambitious given that implementing processing and transportation changes at this time of the year would be difficult under typical circumstances and may face additional challenges due to the continuation of the COVID-19 emergency and the industry-wide stress.

D. Financial/Cost-Savings Analysis

1. Overview

The Postal Service claims that the proposed changes, when implemented in conjunction with the changes proposed in Docket No. N2021-1,¹³¹ will reduce overall transportation costs. Revised USPS-T-2 at 4-9. The Postal Service attempts to quantify the cost savings of shifting FCPS pieces from air to surface routes to create a more efficient transportation network.¹³²

Witness Kim's testimony relies on the modeling testimony of witness Hagenstein to develop estimates of transportation cost savings. Specifically, witness Kim estimates

¹³¹ See Docket No. N2021-1 Advisory Opinion.

¹³² See Request at 6; Revised USPS-T-2 at 5; Library Reference USPS-LR-N2021-2/NP1; Library Reference USPS-LR-N2021-2/NP2; Library Reference USPS-LR-N2021-2/1.

net cost savings of approximately \$42 million¹³³ on an annual basis, using the modeled transportation operational changes and witness Foti's estimate that the initiative will have no net impact on volume. See Revised USPS-T-2 at 9-10. This figure only considers the additional transportation savings that are generated by the expansion of the transportation window for FCPS in conjunction with FCM, as compared to the results of only expanding the transportation window for FCM and end-to-end Periodicals (as presented in Docket No. N2021-1). Request at 8.

Table VII-3 shows the disaggregated and combined transportation cost savings for FCM and FCPS.

¹³³ This figure represents the *additional* cost savings and/or increases due to implementing the proposed changes for FCM and FCPS together (*i.e.*, the cost changes above and beyond those projected in Docket No. N2021-1). See Revised USPS-T-1 at 37; Revised USPS-T-2 at 9. The Postal Service's model for estimating the cost savings of the FCPS service standard change includes both FCM and FCPS volumes. The Postal Service does not provide a model that isolates the operations of only FCPS; nor does it provide any estimates of FCPS costs in isolation. A key aspect of the Postal Service's proposal, as described throughout this Advisory Opinion, is that implementing the proposed changes to FCPS service standards would allow the Postal Service to improve the efficiency of its operations for products besides FCPS. For example, the Postal Service model projects that changing the FCPS service standards would allow additional FCM volume to divert from air transportation to surface transportation. This reflects projected cost savings on FCM transportation that would be created by implementing the changes proposed to FCPS in Docket No. N2021-2. Therefore, throughout this section, the references to the cost savings that the Postal Service estimates would result by implementing the changes proposed to FCPS in Docket No. N2021-2 are not limited to merely cost savings that would result for the FCPS product.

Table VII-3
Combined Transportation Cost Changes by Mode
(\$ in millions)

Mode	Cost Change from Change in Service Standards		
	Both FCM and FCPS	FCM	FCPS
Air	\$(304)	\$(196)	\$(108)
Highway	\$(10)	\$(76)	\$66
Total	\$(314)	\$(272)	\$(42)

Note: As explained in n.133, *supra*, the values appearing in the “FCPS” column represent *additional* cost savings and/or increases due to implementing the proposed changes for FCM and FCPS together, (*i.e.*, the cost changes above and beyond those projected in Docket No. N2021-1). Witnesses Hagenstein and Kim explain that if the Postal Service implemented the proposed changes to FCPS only, without implementing the changes proposed to FCM in Docket No. N2021-1, then the cost savings projected to result from the instant proceeding (appearing in the “FCPS” column) would not occur. See Revised USPS-T-1 at 37; Revised USPS-T-2 at 9. They elaborate that creating a more efficiently-routed surface network is based upon implementing the proposed changes to FCM and FCPS service standards in tandem. See Revised USPS-T-1 at 37; *see also* Revised USPS-T-2 at 5, 9.

Thus, the values appearing in the “FCM” column represent the cost savings due to implementing the changes proposed to FCM in Docket No. N2021-1 only. Finally, the values appearing in the “Both FCM and FCPS” column represent the *total* cost savings estimated to result from implementing the changes proposed to FCM in Docket No. N2021-1 and the changes proposed to FCPS in Docket No. N2021-2.

Source: Library Reference USPS-LR-N2021-2/1, folder “LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21_(1),” Excel file “FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx,” tab “Summary,” cells B6:B8, E6:E8, H6:H8.

Witness Hagenstein states that “Postal management deems the implementation of the service changes described in this filing as necessary to assure that the Postal Service remains a viable, financially healthy institution that can continue to play a vital role in serving the changing communications and delivery needs of the American people well into the 21st century.” Revised USPS-T-1 at 42.

a. Air Transportation

Witness Hagenstein estimates the reduction in pounds flown in the non-public Library Reference USPS-LR-N2021-2/NP2.¹³⁴ Witness Kim uses this total estimated reduction in air capacity to calculate the reduction in air capacity flown on each of the Postal Service's air networks (United Parcel Service, Inc. (UPS), Commercial Air, and Federal Express Corporation (FedEx) Day Turn). See Library Reference USPS-LR-N2021-2/NP1. She states that the "reductions will be spread across multiple carriers," each of which charges a different rate per pound or per cubic foot flown. See Revised USPS-T-2 at 3. She explains that "for the most part"¹³⁵ air transportation costs vary in proportion with volume, due to the nature of the contracts with the carriers. See Revised USPS-T-2 at 4.

The Postal Service calculates the cost savings resulting from the reduction in air capacity for each carrier by multiplying the percent change in units flown by the carrier's total cost. Revised USPS-T-2 at 4-7. It estimates that it will obtain annual gross air transportation savings of \$304 million from the proposed changes in service standard for both FCM and FCPS. Revised USPS-T-2 at 4. The portion of the annual gross savings estimated to result from the changes proposed to the FCPS service standards

¹³⁴ The model appearing in Library Reference USPS-LR-N2021-2/NP2 contains pounds flown for both FCM and FCPS.

¹³⁵ "The exception – payments to FedEx and UPS for failure to meet minimum volume commitments – is treated as an institutional cost and accounts for only a 0.4-percentage point diminution in what is otherwise a 100-percent volume variability ratio. Moreover, there is sufficient lead time until implementation to adjust the network appropriately and meet new planned minimums." Revised USPS-T-2 at 4 n.6 (internal citation omitted).

is \$108 million.¹³⁶ This portion is calculated by subtracting the savings estimated to result from the changes proposed to FCM service standards only (\$196 million) from the combined annual gross savings estimate (\$304 million).¹³⁷

b. Highway Transportation

The Postal Service calculates the expected savings from the proposed changes by estimating the change in required capacity for each type of purchased highway contract (inter-Area, inter-Cluster, and inter P&DC), multiplied by the cost to capacity variability,¹³⁸ further multiplied by base costs for each contract type. Revised USPS-T-2 at 7. The product of the percentage change in capacity and the cost to capacity variability yields an estimate of the percentage change (reduction) in costs. Multiplying the percentage change in costs by baseline costs yields the expected reduction in highway transportation costs. This calculation yields an expected total reduction in annual purchased highway transportation costs of \$10 million for FCPS and FCM combined, which are detailed in Table VII-4.

The Postal Service explains that the proposed service standards will increase required capacity by 2.1 percent and increase costs by \$21 million on inter-Area contracts. *Id.* at 7. It expects a decrease in required capacity of 10.7 percent and 4.9

¹³⁶ Library Reference USPS-LR-N2021-2/1, folder "LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21" Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Summary." Of the additional \$108 million in savings on air transportation that the Postal Service estimates would result from implementing the changes proposed in the instant docket, approximately half of these estimated savings are attributable to diverting FCPS volume from the air to surface network. The remaining estimated savings are attributable to the Postal Service's expectation that implementing the changes proposed in the instant docket would enable the Postal Service to divert *additional* FCM volume from the air to surface network (*i.e.*, diverting FCM volume above and beyond that projected by the FCM Only Model presented in Docket No. N2021-1).

¹³⁷ Library Reference USPS-LR-N2021-2/1, PDF file LR.1.Preface.Rev.7.2.21.Cost Changes_Public.pdf," Table "Comparison of Original vs Revised Estimates."

¹³⁸ Variability of cost with respect to capacity used to determine the levels of attribution for purchased highway transportation expenses in Cost Segment 14. See Docket No. RM2014-6, Library Reference USPS-RM2014-6/1, June 20, 2014, folder "Prop.Six.Updat.Hwy.Variab (1)," file "Tech.Append.Hwy.Variab.Updat.docx."

percent within inter-Cluster and inter-P&DC contracts, resulting in a cost decrease of \$24 million and \$7 million. *Id.* The Postal Service estimates that highway cost savings of \$76 million would result from implementing the proposed service standard changes for FCM only. The Postal Service estimates that implementing the proposed FCPS service standard change (along with the proposed changes to FCM) would increase total highway costs by \$66 million, resulting in the net cost saving of \$10 million.

Table VII-4
Combined Highway Transportation Cost Changes by Contract Type
(\$ in millions)

	A	B	C = A * B	D	E = C * D	F	G = E - F
Contract Type	Percent Change in Required Highway Capacity from Library Reference USPS-LR-N2021-2/4	Cost to Capacity Variability from Docket No. RM2014-6, Library Reference USPS-RM2014-6/1	Percentage Change in Costs	Baseline Cost from Docket No. ACR2020, Library Reference USPS-FY20-32	Change in Highway Transportation Costs	Cost Change for FCM	Cost Change for FCPS
Inter-Area	2.1%	89.9%	1.9%	\$ 1,091	\$ 21	\$ (65)	\$ 85
Inter-Cluster	-10.7%	89.1%	-9.5%	249	(24)	(8)	(16)
Inter-P&DC	-4.9%	85.0%	-4.2%	174	(7)	(4)	(3)
Total				\$ 1,514	\$ (10)	\$ (76)	\$ 66

Note: As explained in n.133, *supra*, the values appearing in the “G” column represent *additional* cost savings and/or increases due to implementing the proposed changes for FCM and FCPS together, (*i.e.*, the cost changes above and beyond those projected in Docket No. N2021-1). Witnesses Hagenstein and Kim explain that if the Postal Service implemented the proposed changes to FCPS only, without implementing the changes proposed to FCM in Docket No. N2021-1, then the cost savings projected to result from the instant proceeding (appearing in the “G” column) would not occur. See Revised USPS-T-1 at 37; Revised USPS-T-2 at 9. They elaborate that creating a more efficiently-routed surface network is based upon implementing the proposed changes to FCM and FCPS service standards in tandem. See Revised USPS-T-1 at 37; *see also* Revised USPS-T-2 at 5, 9. Thus, the values appearing in the “F” column represent the cost savings due to implementing the changes proposed to FCM in Docket No. N2021-1 only.

Source: Library Reference USPS-LR-N2021-2/1, folder “LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21_ (1),” Excel file “FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx,” tab “Highway,” cells B30:B32, C30:C32, D30:D32 E30:E32, F30:F32; Excel file “FCM Transportation Savings-Public.Rev.7.2.2021.xlsx,” tab “Highway,” cells F29:F31.

c. Combined Transportation Cost Savings

Estimated cost savings from a change in service standards should take into account the impact of any expected loss in volume due to the change in service standard. Witness Foti estimates no loss in volume. Revised USPS-T-3 at 9. The additional annual net financial gain estimated to result from implementing the proposed

service standard changes in the instant docket (above and beyond the changes proposed in Docket No. N2021-1), was originally projected at \$55 million.¹³⁹ This projection was subsequently revised to \$42 million.¹⁴⁰

d. Additional Transportation Cost Savings

The Postal Service estimates additional savings from reducing the capacity of charter carriers and optimizing the NDC network. Revised USPS-T-2 at 9. As shown in Table VII-5, witness Kim asserts that the further cost savings would range from \$77 to \$214 million. Revised USPS-T-2 at 10.

Table VII-5
Overall Transportation Cost Changes
(\$ in millions)

Additional Cost Savings	Range of Cost Savings		Savings from Change in Service Standard
	Low	High	FCPS
Reduction in Charter Carriers	\$(15)	\$(98)	
Optimization of NDC Network	\$(62)	\$(116)	
Total	\$(77)	\$(214)	\$(42)

Note: As explained in n.133, *supra*, the values appearing in this table represent *additional* cost savings and/or increases due to implementing the proposed changes for FCM and FCPS together, (*i.e.*, the cost changes above and beyond those projected in Docket No. N2021-1).

Source: Docket No. N2021-2, Library Reference USPS-LR-N2021-2/1, folder "LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21," Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Summary," cells B13:B14, C13:C14, H8.

¹³⁹ USPS-T-2 at 2 (providing the Postal Service's initial projection of \$55 million). As explained in n.133, *supra*, this projection represents the *additional* cost savings and/or increases due to implementing the proposed changes for FCM and FCPS together, (*i.e.*, the cost changes above and beyond those projected in Docket No. N2021-1).

¹⁴⁰ See Revised USPS-T-2 at 9 (revising the Postal Service's projection to \$42 million).

(1) Charter Carriers

The Postal Service assumes a range of percent reduction in the capacity of charter carriers.¹⁴¹ The Postal Service multiplies the percent reduction¹⁴² by the total cost for all charters to calculate the additional savings from the reduction of charter carriers. See USPS-T-2 at 4. It estimates additional savings ranging from \$15 to \$98 million from the reduction in charter carrier usage. *Id.* at 9.

(2) NDC Network

Witness Hagenstein estimates a reduction in capacity on the inter-NDC and the intra-NDC network ranging from 6 to 8 percent and 14 to 28 percent, respectively. Revised USPS-T-1 at 4-5. Witness Kim computes additional cost savings ranging from \$62 to \$116 million from the optimization of the NDC network.¹⁴³

2. Commission Analysis

The Commission used witness testimonies and accompanying library references, responses to interrogatories and Presiding Officer's Information Requests (POIRs); the Postal Service's 10-year strategic plan; the FY 2021 and FY 2020 Integrated Financial Plans; Consolidated National Trial Balances; FY 2017-FY 2020 Forms 10-K and FY 2021 1st, 2nd and 3rd Quarters Forms 10-Q to analyze the Postal Service's claim that the proposed service standard changes will reduce purchased transportation costs.

¹⁴¹ See Library Reference USPS-LR-N2021-2/NP1.

¹⁴² This percent reduction excludes the portion of the percent change in charter carrier capacity, related to the proposed change in service standards, included in the calculation of air transportation cost savings of \$108 million.

¹⁴³ See USPS-LR-N2021-2/1, folder "LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21_ (1)," Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Potential-NDC Network."

a. Cost Savings and Methodology

Similar to Docket No. N2021-1, the Commission finds that although theoretically the methodology the Postal Service uses to estimate cost savings may be sound, in practice the Postal Service's computation of the estimated cost savings raises several potential issues. The use of FY 2020 as a base year for cost savings is problematic due to the extraordinary nature of postal operations in FY 2020. Additionally, the inclusion of FY 2020 charter costs, when these costs were at their highest compared to the last five years (see Figure VII-2) due to the limited availability of Commercial Air, is problematic. Further, the Postal Service does not account for additional costs necessary to optimize its network in the calculation of cost savings resulting from the optimization of the NDC network.

b. Base Year

FY 2020 was not an ordinary year for the Postal Service with regard to costs. The Postal Service FY 2020 Form 10-K states that “[a]ir transportation expenses increased \$391 million, or 12.7%, compared to the prior year, due to higher Shipping and Packages volumes and higher expenses for chartered air transportation as travel restrictions associated with the COVID-19 pandemic limited commercial air carrier availability....”¹⁴⁴

(1) Charter Carriers

Unlike Docket No. N2021-1, the Postal Service's cost savings estimates include savings from a reduction in charter flights. The Postal Service confirms that “[t]he baseline costs include all costs of charter flights occurring in FY 2020” and the cost savings from shifting FCPS volumes from air to surface were reduced to correspond “to

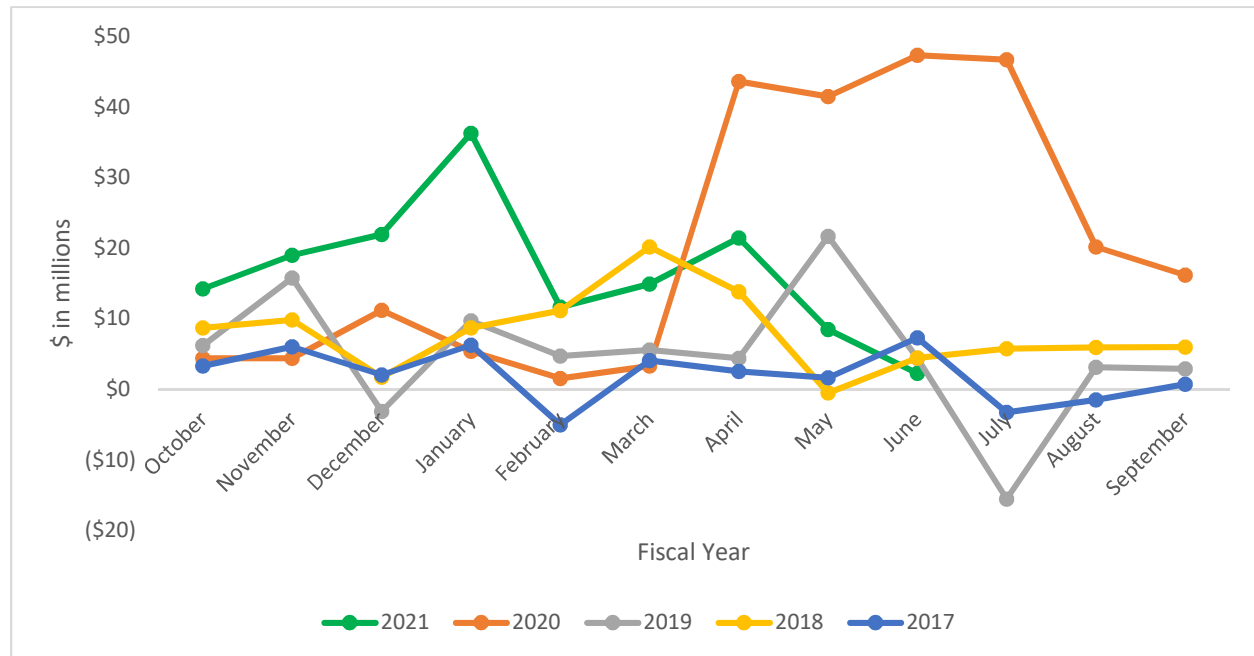
¹⁴⁴ United States Postal Service, 2020 Report on Form 10-K, November 13, 2020, at 44, available at <https://www.prc.gov/docs/115/115086/2020%2011-13%2010-K.pdf> (Postal Service FY 2020 Form 10-K).

the reduction in capacity on FedEx Day Turn, which is the cost pool that includes the charter flight costs”. Response to POIR No. 4, question 21. It goes on to state that “although FY 2020 saw a higher use of charters as compared to prior fiscal years, it was still reasonable to use FY 2020 costs as the baseline. This is because charters would continue to be required to handle the higher level of network package volume.” *Id.* question 21.a. Further, “[t]he pre-pandemic lower charter costs, when averaged together with the peak-pandemic charter costs, represent a reasonable approximation of what the post-pandemic charter costs would be, in the absence of the proposed changes.” *Id.*

Figure VII-2 presents the total charter costs by month. As seen in Figure VII-2, the monthly cost in April FY 2020 of FedEx charters increased almost tenfold from April FY 2019 and is double the monthly cost in April FY 2021. FedEx charter costs make up ten percent of total air transportation costs. The Postal Service FY 2021 Quarter 3 Form 10-Q states that air transportation costs decreased 4.4 percent for the three months ending on June 30, 2021 “due to the shift of certain volume to highway transportation and the greater availability of commercial air flights in the current quarter, when compared to the onset of the pandemic last year.”¹⁴⁵

¹⁴⁵ United States Postal Service, Quarterly Report on Form 10-Q for Quarterly Period Ended June 30, 2021, August 6, 2021, at 32, available at <https://www.prc.gov/docs/119/119458/2021%2008-05%20Form%2010-Q.pdf> (Postal Service FY 2021 Quarter 3 Form 10-Q).

Figure V-2
Historic Trend in FedEx Charter Costs, by Month, FY 2017–June FY 2021
 (\$ in millions)



Note: For 5 of the 60 months in Figure VII-2, the monthly charter costs are negative. Charter costs are recorded as debit entries or positive amounts to the Postal Service's general ledger to three accounts: 53719000 Domestic Air-Charter Linehaul (Excise Taxable), 53721000 Domestic Air-Charter Non Linehaul and 53722000 Domestic Air-Charter Fuel (Excise Taxable). Credit entries or negative amounts are adjustments to previously recorded amounts.

Source: National Trial Balance, Statement of Revenue and Expenses Reports for Sept 2020, November 13, 2020; National Trial Balance, Statement of Revenue and Expense Reports for Nov 2020, December 22, 2020; National Trial Balance, Statement of Revenue and Expenses Reports for December 2020, February 9, 2021; National Trial Balance, Statement of Revenue and Expenses Reports for January 2021, February 24, 2021; National Trial Balance, Statement of Revenue and Expenses Reports for February 2021, March 24, 2021; National Trial Balance, Statement of Revenue and Expenses Reports for March 2021, May 7, 2021; National Trial Balance, Statement of Revenue and Expenses Reports for April 2021, May 24, 2021; National Trial Balance, Statement of Revenue and Expenses Reports for May 2021, June 24, 2021; National Trial Balance, Statement of Revenue and Expenses Reports for June 2021, August 6, 2021; National Trial Balance and Statement of Revenue and Expenses, October 2019, November 25, 2019; National Trial Balance and Statement of Revenue and Expenses, November 2019, December 23, 2019; National Trial Balance and Statement of Revenue and Expenses, December 2019, February 6, 2020; National Trial Balance and Statement of Revenue and Expenses, January 2020, February 24, 2020; National Trial Balance and Statement of Revenue and Expenses, February 2020, March 23, 2020; National Trial Balance and Statement of Revenue and Expenses, March 2020, May 8, 2020; National Trial Balance and Statement of Revenue and Expenses April 2020, May 26, 2020; National Trial Balance and Statement of Revenue and Expenses, May 2020, June 24, 2020; National Trial Balance, Statement of Revenue and Expenses Reports for June 2020, August 7, 2020; National Trial Balance, Statement of Revenue and Expenses Reports for July 2020, August 24, 2020; National

Trial Balance, Statement of Revenue and Expenses Reports for August 2020, September 24, 2020; National Trial Balance, Statement of Revenue and Expenses Reports for Sept 2020, November 13, 2020; National Trial Balance and Statement of Revenue and Expenses, October 2018, November 26, 2018; National Trial Balance and Statement of Revenue and Expenses, November 2018, December 26, 2018; National Trial Balance and Statement of Revenue and Expenses, December 2018, February 8, 2019; National Trial Balance and Statement of Revenue and Expenses, January 2019, February 22, 2019; National Trial Balance and Statement of Revenue and Expenses, February 2019, March 22, 2019; National Trial Balance and Statement of Revenue and Expenses, March 2019, May 10, 2019; National Trial Balance and Statement of Revenue and Expenses. April 2019, May 24, 2019; National Trial Balance and Statement of Revenue and Expenses, May 2019, June 24, 2019; National Trial Balance and Statement of Revenue and Expenses, June 2019, August 9, 2019; National Trial Balance and Statement of Revenue and Expenses, July 2019, August 23, 2019; National Trial Balance and Statement of Revenue and Expenses, August 2019, September 25, 2019; National Trial Balance and Statement of Revenue and Expenses, September 2019, November 14, 2019; National Trial Balance and Statement of Revenue and Expenses, October 2017, November 24, 2017; National Trial Balance and Statement of Revenue and Expenses, November 2017, December 26, 2017; National Trial Balance and Statement of Revenue and Expenses, December 2017, February 9, 2018; National Trial Balance and Statement of Revenue and Expenses, January 2018, February 23, 2018; National Trial Balance and Statement of Revenue and Expenses, February 2018, March 23, 2018; National Trial Balance and Statement of Revenue and Expenses, March 2018, May 10, 2018; National Trial Balance and Statement of Revenue and Expenses, April 2018, May 24, 2018; National Trial Balance and Statement of Revenue and Expenses, May 2018, June 25, 2018; National Trial Balance and Statement of Revenue and Expenses, June 2018, August 9, 2018; National Trial Balance and Statement of Revenue and Expenses, July 2018, August 22, 2018; National Trial Balance and Statement of Revenue and Expenses, August 2018, September 24, 2018; National Trial Balance and Statement of Revenue and Expenses, September 2018, November 14, 2018; National Trial Balance, October 2016 (FY 2017); and Statement of Revenue and Expenses, October 2016 (FY 2017), November 23, 2016; National Trial Balance, November 2016 (FY 2017); and Statement of Revenue and Expenses, November, 2016 (FY 2017), December 23, 2016; National Trial Balance, December 2016 (FY 2017); and Statement of Revenue and Expenses, December 2016 (FY 2017), February 9, 2017; National Trial Balance, January 2017 (FY 2017); and Statement of Revenue and Expenses, January, 2017 (FY 2017), February 24, 2017; National Trial Balance, February, 2017; and Statement of Revenue and Expenses, February, 2017, March 21, 2017; National Trial Balance and Statement of Revenue and Expenses, March 2017, May 10, 2017; National Trial Balance and Statement of Revenue and Expenses, April 2017, May 24, 2017; National Trial Balance and Statement of Revenue and Expenses, May 2017, June 23, 2017; National Trial Balance and Statement of Revenue and Expenses, June 2017, August 10, 2017; National Trial Balance and Statement of Revenue and Expenses, July 2017, August 24, 2017; National Trial Balance and Statement of Revenue and Expenses, August 2017, September 22, 2017; National Trial Balance and Statement of Revenue and Expenses, September 2017, November 14, 2017.

As shown in Figure VII-2, at the start of the pandemic, charter carrier costs were the highest in April FY 2020. Air transportation cost savings projected from this higher charter cost base may be overstated because the cost of charters comprise almost 10 percent of total air transportation costs in FY 2020 and their cost increased notably at the start of the pandemic and remain comparatively higher than the cost of charters in FY 2021. Therefore, charter cost savings using FY 2020 as a base year may not be representative of future charter costs savings.

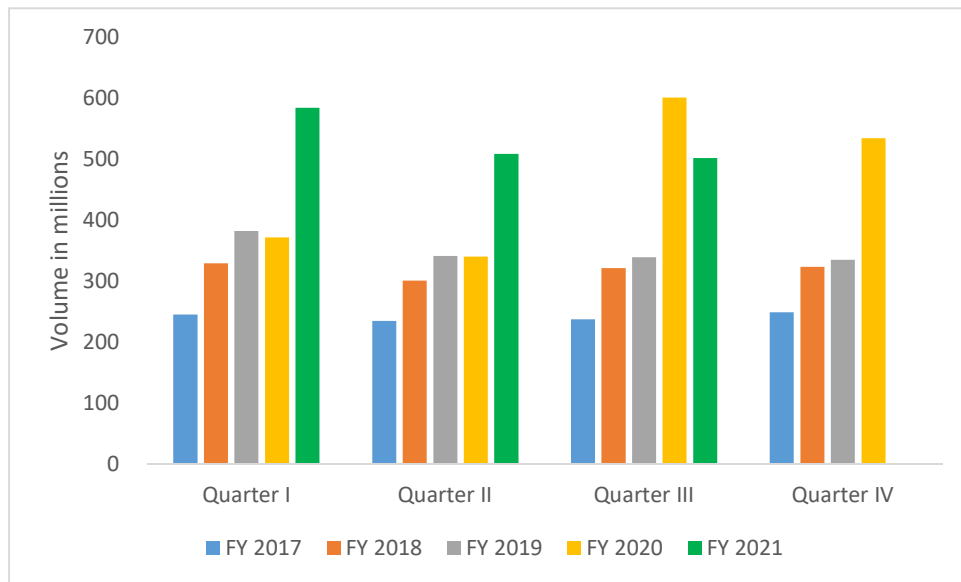
(2) Commercial Air Carriers

In addition, the Postal Service expects its transportation costs to decrease with the increased availability of lower cost commercial air carriers and the slowing growth in packages as the “the surge in e-commerce has begun to abate as the economy continues to recover.” Postal Service FY 2021 Quarter 3 Form 10-Q at 27.

(3) FCPS Volume

Figure VII-3 shows FCPS volume by quarters from FY 2017 through the latest published quarter, the 3rd Quarter of FY 2021. As seen in Figure VII-3, FCPS quarterly volume decreased from its pandemic high in the same period last year, which supports the Commission’s concern that projecting the charter costs included in the FY 2020 base year forward annually may not be representative.

Figure VII-3
FCPS Volume, by Quarters, FY 2017-3rd Quarter FY 2021



Source: Revenue, Pieces & Weight (RPW) by Classes of Mail and Special Services for Quarters 1-4 YTD, FY 2018, Compared with Corresponding Period of FY 2017 – Mailing Services (Market Dominant Products) and Shipping Services (Competitive Products), folder “RPW_FY2018_Q1-4_Summary,” Excel files “FY2018Q1_RPWsummaryreport_public_eoy,” “FY2018Q2_RPWsummaryreport_public_eoy,” “FY2018Q3_RPWsummaryreport_public_eoy,” “FY2018Q4_RPWsummaryreport_public_eoy,” FY 2020 Quarter 1 RPW Report, FY 2020 Quarter 2 RPW Report; FY 2020 Quarter 3 RPW Report; FY 2020 Quarter 4 RPW Report; FY 2021 Quarter 1 RPW Report; FY 2021 Quarter 2 RPW Report; FY 2021 Quarter 3 RPW Report.

The Postal Service acknowledges that the decline in FCPS volume is “reflective of the economy continuing to recover and growing market competition.” Postal Service FY 2021 Quarter 3 Form 10-Q at 27. Additionally, NALC claims that “the potential damage to the Postal Service’s brand of reducing the quality of service [“.....”], could be significant and could trigger greater volume losses than those suggested by price elasticities calculated many years ago.” NALC Statement at 2. The Postal Service concluded based on survey results that it will experience no net volume loss resulting from the reduction of service. The lack of econometric analysis to determine the impact of the service standard changes on consumer demand could result in the loss of volume negatively impacting the Postal Service’s financial condition. Although the “expanded

[rate] authority” to which NALC refers applies to Market Dominant products rather than to Competitive products such as FCPS,¹⁴⁶ the Postal Service will increase prices for FCPS from October 3, 2021 through December 26, 2021,¹⁴⁷ and has not provided any estimates of volume loss as a result of this price change. The intense competition for packages may indicate that the expected growth projected in the instant case may not be realized, and the ability to find the correct fit for products in the marketplace becomes more important. Damage to its brand would exacerbate this problem. Therefore, it would be prudent for the Postal Service to include such package growth projections in its calculations, particularly for Competitive products for which customers have alternatives in the marketplace.

(4) Highway Transportation

For highway transportation cost savings, the Postal Service projects a cost increase of \$66 million to result from implementing the proposed service standard change for FCPS (see Table VII-4, *supra*), which would represent a 4 percent increase of baseline highway transportation costs.¹⁴⁸ Additionally, witness Hagenstein states that in response to the pandemic, the Postal Service has included an additional 1 day in the service standard for FCPS effective April 17, 2020. See Revised USPS-T-1 at 1.

However, based on the recent cost data provided by the Postal Service, it appears that the highway transportation cost increase in FY 2021 is higher than the base year, and as such the estimated annual cost increase when the proposed

¹⁴⁶ See NALC Statement at 2. The Postal Service’s ability to set rates for its Market Dominant products are subject to limitations that do not apply to its Competitive products, such as a cap on price increases and limitations related to workshare discounts. *Compare* 39 U.S.C. § 3622(d)(1)(A) and (e), *and* 39 C.F.R. part 3030 (regulation of rates for Market Dominant products), *with* 39 U.S.C. §§ 3632-3633 *and* 39 C.F.R. part 3035 (regulation of rates for Competitive products).

¹⁴⁷ Docket No. CP2021-127, Order Approving Price Adjustments for Domestic Competitive Products, August 31, 2021, 1, 3 (Order No. 5973).

¹⁴⁸ This percent increase is based on baseline highway transportation costs of \$1,514 (Inter-Cluster \$249 million + Inter P&DC \$174 million + Inter Area \$1,091 million) divided by \$66 million. See Revised USPS-T-2 at 7.

standards are implemented in FY 2022 may be understated. The Postal Service's latest financial results indicate that even with the additional 1 day of transportation time and a 16.5 percent decrease in FCPS volume, highway transportation expenses increased by 16.2 percent in the 3 months that ended on June 30, 2021, and 12.8 percent in the 9 months that ended on June 30, 2021, compared to the same periods in FY 2020. The Postal Service claims that the primary reason for the increases was an increase in the number of miles driven. The Postal Service states, "[e]xpenses grew at a greater rate during the three-month period as we shifted package volume from air to highway transportation when more economical." Postal Service FY 2021 Quarter 3 Form 10-Q at 32.

In contrast to the projected highway transportation cost increase, witness Kim estimates cost savings ranging from \$62 to \$116 million based on an estimate of a further reduction in capacity on the inter-NDC and intra-NDC network provided by witness Hagenstein. Revised USPS-T-2 at 8. In Response to POIR No. 9, the Postal Service states that "savings in the NDC network reflect the potential annual savings in the Intra- and Inter-NDC transportation network once the optimization is complete." Response to POIR No. 9, question 1.c. The Postal Service provides the total approved investment cost for the optimization of the network as "\$209 million in infrastructure funding for acquiring additional space in up to 46 locations and \$240 million in funding for additional package sorting machines." *Id.* question 1.a. The Postal Service clarifies that the savings included in the instant case are expected to be realized "once the optimization is complete" and confirms that the costs for optimizing the network are not included in the cost savings. *Id.* question 1.c.

The Commission's analysis reveals that the estimated additional cost savings of \$62 to \$116 million – derived from efficiencies based on the optimization of the intra- and inter-NDC network – are not reduced by costs affecting the cost savings, in the amount of \$449 million in costs necessary to optimize the network. Additionally, the Commission notes that the Postal Service has not included any portion of the \$550,000

necessary for systems updates to implement the proposal in its cost calculations for the instant case. As such, it appears that the cost savings calculated by the Postal Service are significantly lessened by a number of factors that it has not presented in its proposal.¹⁴⁹

c. Other Issues

Witness Hagenstein states that “Postal management deems the implementation of the service changes described in this filing as necessary to assure that the Postal Service remains a viable, financially healthy institution that can continue to play a vital role in serving the changing communications and delivery needs of the American people well into the 21st century.” Revised USPS-T-1 at 42. The ability of the Commission to meaningfully evaluate this judgment is limited by the lack of the Postal Service’s presentation of a robust analysis of its potential cost savings that corresponds with the complexity of the Postal Service’s operations. For instance, the Postal Service has not identified a method to meaningfully estimate the total additional costs that would have been incurred to meet the existing FCPS service standards at the 95 percent on-time target level for FY 2017 through FY 2020. See Response to POIR No. 4, question 1.b.

In order to balance the realization of cost savings with maintaining quality of service and customer satisfaction, the Commission advises the Postal Service to develop meaningful metrics aimed at measuring its implementation of its proposal. Examples of such metrics would include operating plan compliance and delayed volumes. See August 12 Response to POIR No. 11, question 6. Additionally, the Postal Service, before implementation, should consider whether any potential loss in volume caused by the proposed changes would negate the level of potential savings to be realized.

¹⁴⁹ Docket No. N2021-1, Response of the United States Postal Service to Questions 1-14 & 16-20 of Presiding Officer’s Information Request No. 2, May 21, 2021, question 9 and accompanying Docket No. N2021-1, Library Reference USPS-LR-N2021-1/15, May 21, 2021.

The Public Representative “cannot conclusively say that the projected cost savings analysis is accurate” and “[s]he notes that, historically, not all Postal Services projected cost savings estimates have materialized.” PR Brief at 23. The Commission agrees that the accuracy of the projected cost savings cannot be verified from the data submitted by the Postal Service. The Commission also shares the Public Representative’s cautious appraisal of the cost savings estimates and the mathematical errors presented by the Postal Service, which led to an initial overstatement of the expected cost savings figure. See *id.* The Commission acknowledges that the advisory opinion process is designed to allow for public vetting of the Postal Service’s proposal and that this organically may prompt the Postal Service to refine earlier filings. However, to improve public confidence in the Postal Service’s cost savings analysis and elevate the level of public discourse in N-dockets, the Commission recommends that the Postal Service audit their filings before publishing them for the public.

3. Financial/Cost Savings Conclusion

The Commission finds that the potential cost savings calculated by the Postal Service rest on a number of unproven assumptions. As such, it is unlikely that the Postal Service would achieve cost savings from the proposed changes at the level projected. In particular, the Postal Service’s use of FY 2020 as the base year for calculating savings is likely to lead to overestimation of annual cost savings. Although the Postal Service includes annual charter costs in its base year, FY 2020 was an anomaly for charter costs because of the increased cost due to the impact of the COVID-19 pandemic.

In addition, the projected cost savings may be further reduced by costs incurred by the Postal Service to optimize its network and make it more efficient, such as costs for contracted facilities, additional workers for processing packages, and package sorting equipment. It is therefore unclear whether the net cost savings from the proposed changes would outweigh these additional costs.

Although the advisory opinion process is designed to allow for public input into the Postal Service's service changes, the Commission recommends that the Postal Service implement a process of auditing their filings before making them public. This docket contained multiple errata and revisions to the original request for an advisory opinion, which diminished the transparency into the Postal Service's original cost-benefit analysis.

The cost savings estimates provided by the Postal Service are a calculation of a change in estimated capacity usage multiplied by the historical cost of transportation. This calculation does not incorporate the nuance of postal operations or workload. The materials provided by the Postal Service suggest that it will measure success of the plan by comparing the air and surface transportation costs before and after implementation. That is, at some point in the future, be it at the end of FY 2022 or FY 2023, the Postal Service will compare the air and surface transportation costs with the FY 2020 costs and determine if its actions led to cost savings. This method will not result in a meaningful estimate of the success (or failure) of these changes and is not rigorous enough to match the complexity of the Postal Service's operations. Before embarking on such a major change in operations, the Commission recommends the Postal Service develop a rigorous method to identify the changes in cost that will result from this plan. Without a rigorous method, publicly provided, postal stakeholders will not be able to understand if this change was positive, or necessary from a costing perspective.

E. Transportation Modeling Analysis

1. Overview

The Postal Service's transportation model, developed for the instant proceeding, assumes the implementation of the proposed service standard changes for both FCM¹⁵⁰ and FCPS volumes (FCM/FCPS Model). Revised USPS-T-1 at 31. The Postal Service's transportation model developed for Docket No. N2021-1 included service standard changes only for FCM volumes (FCM Only Model).¹⁵¹ The Postal Service emphasizes that the projected transportation network efficiencies achieved in the FCM/FCPS Model cannot be viewed in isolation from the proposed changes to the FCM service standards. Revised USPS-T-1 at 37.

The purpose of the Postal Service's transportation model is to create surface routings that would transport modeled volumes in the most efficient manner (within the allotted transportation windows for products), and to determine which air FCM and FCPS volumes can be diverted to the surface network in a cost-effective manner. Revised USPS-T-1 at 19, 22. The FCM/FCPS Model projects greater FCM volumes to divert from the air to the surface network, and it projects a smaller reduction in surface network mileages than the FCM Only Model. The FCM/FCPS Model projects greater FCM volumes to shift out of the air network because the combined FCM and FCPS volumes were sufficient to determine the cost-effectiveness of adding surface lanes to

¹⁵⁰ See *generally* Docket No. N2021-1 Advisory Opinion. The Commission refers to the transportation model that was presented in the Docket No. N2021-1 proceeding as the "FCM Only Model." The Commission refers to the transportation model that is subject of the instant proceeding, which includes both FCM and FCPS volumes under the proposed service standards, as the "FCM/FCPS Model."

¹⁵¹ See Docket No. N2021-1 Advisory Opinion at 114-46 for the analysis of transportation modeling results yielded from the FCM Only Model. Considering the proposed service standards for both FCM and FCPS are included in the modeled network analyzed in the instant proceeding, the Commission's analysis of the Postal Service's FCM/FCPS Model results summarizes the impact of the implementation of the proposed changes in FCM and FCPS service standards on both products' volumes.

the network.¹⁵² Added surface transportation capacity in turn allowed more FCM volumes to divert to the surface network, compared to the FCM Only Model. Even with the newly-added long-distance transportation for air-to-surface lanes, the FCM/FCPS Model projects a reduction in the overall network mileages, although a much smaller reduction than was projected by the FCM Only Model.

The FCM/FCPS Model projects an estimated decrease in FCPS volume transported via the air network from 37 percent to 27 percent. Revised USPS-T-1 at 37. Additionally, the Postal Service projects that 61 percent of FCM¹⁵³ weight, currently transported by air, would shift out of the air network.¹⁵⁴ This represents a 12 percentage point increase in FCM capacity projected to divert to the surface network, compared to the diverted FCM capacity that was projected in the FCM Only Model.¹⁵⁵

The Postal Service's modeling results further indicate that the diverted FCM and FCPS volumes will increase surface network mileages for long-distance inter-Area

¹⁵² Revised USPS-T-1 at 31. By contrast, the FCM volumes only were not sufficient to justify the cost of long-distance transportation in the FCM Only Model. Consequently, only FCM volumes that could be placed on the existing surface routings, or on a combination of existing routings and legs, created exclusively for the diverted volumes, were determined to divert from the air to the surface network in the FCM Only Model. Docket No. N2021-1 Tr. 1/175.

¹⁵³ The estimate of 61 percent of FCM weight currently transported by air that is shifted to surface transportation network is provided by the Postal Service in Library Reference USPS-LR-N2021-2/1, folder "LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21," Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Calculate Air Change Lbs Flown," cell C21. This 61 percent estimate includes some remittance volume. The Postal Service explains that it prioritizes a minority of remittance mail, such that this volume is delivered more quickly than is required under the current FCM service standards. Docket No. N2021-1 Tr. 1/340. More specifically, the Postal Service states that 15 percent of remittance volumes are currently assigned to air transportation in the same lanes where other FCM is transported by surface. *Id.* 1/335.

¹⁵⁴ Library Reference USPS-LR-N2021-2/4, folder "LR4.Revised.Files.7.2.21," Excel file "14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx," tab "Air_Finance_Summary." Excluding remittance mail, 56 percent of FCM volume, corresponding to 55 percent of FCM weight flown, is assigned to shift to the surface network in the FCM/FCPS Model.

¹⁵⁵ Docket No. N2021-1, Library Reference USPS-N2021-1/3, April 21, 2021, folder "USPS-LR-N2021-1_3," subfolder "N2021-1-3," Excel file "3_SSD_5D_Vol_Impacts_CONUS.xlsx," tab "Air_Finance_Summary." This corresponds to a decrease in FCM volume flown from the current 21 percent to 9 percent. *Id.* tab "FCM_Contiguous_Impact."

transportation, without increasing overall surface network mileages. More specifically, as the volumes transported via the surface network increase from 63 to 73 percent for FCPS, and from 79 to 91 percent for FCM, mileages for inter-Area transportation are projected to increase by 2 percent, while the overall inter-SCF surface network mileages are projected to decrease by less than 1 percent.¹⁵⁶

The Postal Service estimates a \$304 million decrease in annual air transportation costs due to a reduction in FCM and FCPS capacity flown.¹⁵⁷ This represents an additional \$108 million cost savings on air transportation, compared to the air transportation cost savings that were presented by the Postal Service using the FCM Only Model. *Id.*

In addition, the Postal Service calculates \$10 million in savings on surface transportation, associated with the projected 1 percent reduction in overall surface network mileages. *Id.* This represents a \$66 million reduction in surface transportation savings, compared to the surface transportation cost savings that were presented by the Postal Service using the FCM Only Model. *Id.*

As for its transportation impact analysis, the Postal Service cautions that the transportation modeling results will require significant post-processing work by transportation planners prior to implementation, in order to refine the modeled routings into “actual routings that can be implemented.” Revised USPS-T-1 at 32.

The Postal Service further describes continuing adjustments to the surface transportation network, as well as the planned merger of the modeled network with the

¹⁵⁶ See Revised USPS-T-1 at 37; Docket No. N2021-1, Library Reference USPS-N2021-1/3, folder “USPS-LR-N2021-1_3,” subfolder “N2021-1-3,” Excel file “3_SSD_5D_Vol_Impacts_CONUS.xlsx,” tab “FCM_Contiguous_Impact.” Library Reference USPS-LR-N2021-2/4, folder “LR4.Revised.Files.7.2.21,” Excel file “14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx,” tab “Finance_Summary Surface.”

¹⁵⁷ Library Reference USPS-N2021-2/1, folder “LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21,” Excel file “FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx,” tab “Summary.”

inter-NDC network and its volumes. Response to APWU/USPS-T-1/6; Revised USPS-T-1 at 37.

2. Commission Analysis

In the sections that follow, the Commission analyzes the modeled baseline and final network scenarios. Additionally, the Commission compares the efficiencies estimated to be achieved in the final modeled network against the baseline network and the actual FY 2020 inter-SCF network. The Commission then compares the projected transportation efficiencies achieved in the FCM Only Model to those achieved in the FCM/FCPS Model, and addresses the potential impacts of the model's limitations on the estimated efficiency gains upon implementation. Lastly, the Commission discusses the timeline for the implementation of surface transportation network changes. Overall, the Commission's analysis highlights the limited utility of the analyzed results in the context of the Postal Service's planned consolidation of the coast-to-coast surface transportation network modeled in the instant proceeding and the inter-NDC network.

a. Modeled Network Scenarios

The FCM/FCPS Model was developed using daily volumes with 3-Digit ZIP Code origin and destination information and the corresponding OD Pairs within the contiguous United States.¹⁵⁸ The Postal Service modeling results contain—both under the current and proposed service standards—the mode of transportation applicable to each OD Pair.

The Postal Service clarifies that “[e]ach [OD Pair] might represent one or more routings between Origin and destination SCF,” while some of the OD Pairs might

¹⁵⁸ The publicly filed data also include information on the current and proposed FCPS service standards. The results data filed under seal include additional information on the current and proposed transportation mode assignments. Library Reference USPS-LR-N2021-2/4, Excel file “10_3digit_FCPS_Public(REV7.2.21).xlsx;” Revised USPS-LR-N2021-2/NP2, Excel file “10_3digit_FCPS_Private(REV7.2.21).xlsx.”

overlap onto the same routings. Response to POIR No. 4, question 19.a. The Postal Service did not map the provided OD Pair data to either the existing routings or the optimized routings produced in each modeled network scenario, neither did the Postal Service provide transportation modes for the existing/modeled routings.

The summary level information provided by the Postal Service did not address the complexities of postal operations. For example, the volume in each OD Pair is identified as being transported via air or surface. This information alone is not sufficiently descriptive of how the Postal Service plans to implement changes in transportation lanes. For example, stating that the volume in an OD Pair will be transported by surface does not capture possible hub operations at an STC, any detail on multi-stop trips, or the merging of mail shapes processed at separate facilities. Without this level of information, network operations cannot be fully understood. A more complete presentation of these data would have allowed participants and the Commission to analyze the existing and modeled routings and the comparative complexities of the current and modeled networks in a meaningful fashion.

In response to a POIR, the Postal Service provides aggregate values for the number of average daily trips and mileages that correspond to modeled routings for OD Pairs for each of the modeled network scenarios and the actual FY 2020 inter-SCF network.¹⁵⁹ The Commission analysis that follows pertains to the modeled baseline and final networks and the actual FY 2020 inter-SCF network, using the corresponding number of trips and mileages, as provided by the Postal Service. These networks have been adjusted to remove transportation outside the scope of the model.¹⁶⁰

¹⁵⁹ Response to POIR No. 2, question 4. The Postal Service provides number of trips and mileages for each inter-SCF contract category (*i.e.*, inter-Area, inter-Cluster, and inter-P&DC). As for the actual FY 2020 inter-SCF network, the Postal Service provides these values for the actual network adjusted to remove transportation outside the scope of the model, and for the actual network not adjusted to remove outside-the-scope transportation.

¹⁶⁰ The Commission will refer to the actual FY 2020 inter-SCF network, adjusted to remove outside-the-scope transportation, as the “actual (adjusted) FY 2020 inter-SCF network.”

Baseline network. The Commission finds that the baseline network may not accurately portray the current operating environment and therefore may not be a reasonable reference point for calculating the impact of the proposed changes. The baseline network assumes optimized routings would be used to transport inter-SCF network volumes¹⁶¹, currently served by surface transportation and subject to the existing service standards, rather than the routings currently used that are not optimized. Therefore, the baseline model assumes mail will be transported in the most efficient way that minimizes trips and mileages.¹⁶² The Postal Service used the TMOD software with the same set of optimization instructions to generate the baseline network's routings as it did to generate FCM/FCPS Model routings.¹⁶³ In other words, the transportation model was not constrained to optimize existing routings, but rather created new, efficient routings for the modeled OD Pairs. Docket No. N2021-1 Tr. 1/213.

The Postal Service compares the baseline network mileages with the surface transportation network mileages resulting from the implementation of the proposed FCM and FCPS service standards. The Postal Service calculates the associated change in surface transportation costs by multiplying the projected change in mileages by FY 2020 surface costs¹⁶⁴ and compares these to the actual FY 2020 surface transportation costs.

¹⁶¹ The Postal Service states that the modeled volumes are representative of an average period of the year and align with transportation requirements the Postal Service expects to experience "most of the time." Response to POIR No. 6, questions 4.a., 4.c.

¹⁶² Revised USPS-T-1 at 22. The modeled volumes include FCM and FCPS, inbound and outbound international mail (letters, flats, and packets), USPS Marketing Mail and Periodicals identified as being transported via the FCM network, and priority parcels and flats. Docket No. N2021-1, Tr. 1/175, 214. The products that are transported in the current inter-SCF network and were not included in the modeling, on the basis of being outside the scope, include Priority Mail Express and mail transport equipment (MTE). *Id.* at 187.

¹⁶³ Trips in the baseline network were built using optimal departures from origin and included stops at multiple origins, multiple destinations, aggregation sites, or STCs. Response to POIR No. 4, questions 19.d.-19.e.; Docket No. N2021-1 Tr. 1/182-83.

¹⁶⁴ This further adjusts for applicable variability factors.

Thus, for the purposes of estimating the impact of the proposal, the Postal Service assumes that the modeled baseline network is an accurate representation of the actual (adjusted) FY 2020 inter-SCF network. The Commission evaluates whether the baseline network is an accurate representation of the actual (adjusted) FY 2020 inter-SCF network below.¹⁶⁵

Table VII-6 compares the proportions of total FY 2020 inter-SCF transportation costs, total actual (adjusted) FY 2020 inter-SCF network mileages, and total baseline network mileages, accounted for by each of inter-Area, inter-Cluster, and inter-P&DC transportation. This table shows that transportation costs are exactly correlated with actual (adjusted) FY 2020 inter-SCF network mileages, and that the modeled baseline network mileages are materially different than the actual (adjusted) FY 2020 inter-SCF network mileages.

Table VII-6
Percentages of Total FY 2020 Surface Transportation Costs,
Actual (Adjusted) FY 2020 Inter-SCF Network Mileages, and
Modeled Baseline Network Mileages, in Each of the Inter-SCF Contract Categories

	FY 2020 Inter-SCF Transportation Costs	Actual (Adjusted) FY 2020 Inter-SCF Network Mileages	Baseline Network Mileages*
Inter-Area	72%	72%	75%
Inter-Cluster	16%	16%	22%
Inter-P&DC	12%	12%	4%

Note: * The values in this column do not add up to 100 percent due to rounding.

Source: Library Reference USPS-LR-N2021-2/1, Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Highway;" Response to POIR No. 2, question 4; Library Reference USPS-LR-N2021-2/4, Excel file "14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx," tab "Finance_Summary Surface."

¹⁶⁵ The actual FY 2020 surface transportation costs include costs for contracted regular and emergency inter-SCF transportation, *i.e.*, they are adjusted to exclude costs for contracted exceptional and "Christmas" transportation.

As detailed in Table VII-6, the differences between the actual (adjusted) FY 2020 inter-SCF network mileages and the baseline network mileages are most apparent for the inter-Cluster and inter-P&DC mileages. Only 4 percent of the mileage in the baseline network involves inter-P&DC transportation, but inter-P&DC transportation accounted for 12 percent of mileages in FY 2020.

In response to an information request, the Postal Service provides two main factors to explain the discrepancy between the actual (adjusted) FY 2020 inter-SCF mileages and baseline network mileages, accounted for by inter-Area, inter-Cluster, and inter-P&DC transportation. First, it states that the baseline network includes a “different trip distribution” than the actual (adjusted) FY 2020 inter-SCF network. Response to POIR No. 4, question 17.b. More specifically, the Postal Service explains that the baseline network includes multi-origin to single-destination routings and single-origin to multi-destination routings. *Id.* The Postal Service explains that such routings combine inter-P&DC routings as trip legs, which are part of inter-Cluster and inter-Area trips, and may have resulted in more baseline network trips and mileages assigned to inter-Cluster and inter-Area transportation. *Id.* Second, the Postal Service clarifies that the baseline network does not include outside-the-scope transportation, listing mailer pick-ups, trips to move volumes to and from Terminal Handling Services sites, transportation to move Priority Mail Express and MTE between facilities, or inter-P&DC shuttle trips to transfer volumes based on processing responsibilities, among outside-the-scope transportation.¹⁶⁶

The explanations provided by the Postal Service do not contain quantitative information sufficient to justify the magnitude of difference between the actual (adjusted) FY 2020 inter-SCF network mileages and the baseline network mileages. The Postal Service has not provided evidence to indicate that the use of FY 2020 surface transportation costs to calculate savings associated with the change in mileages

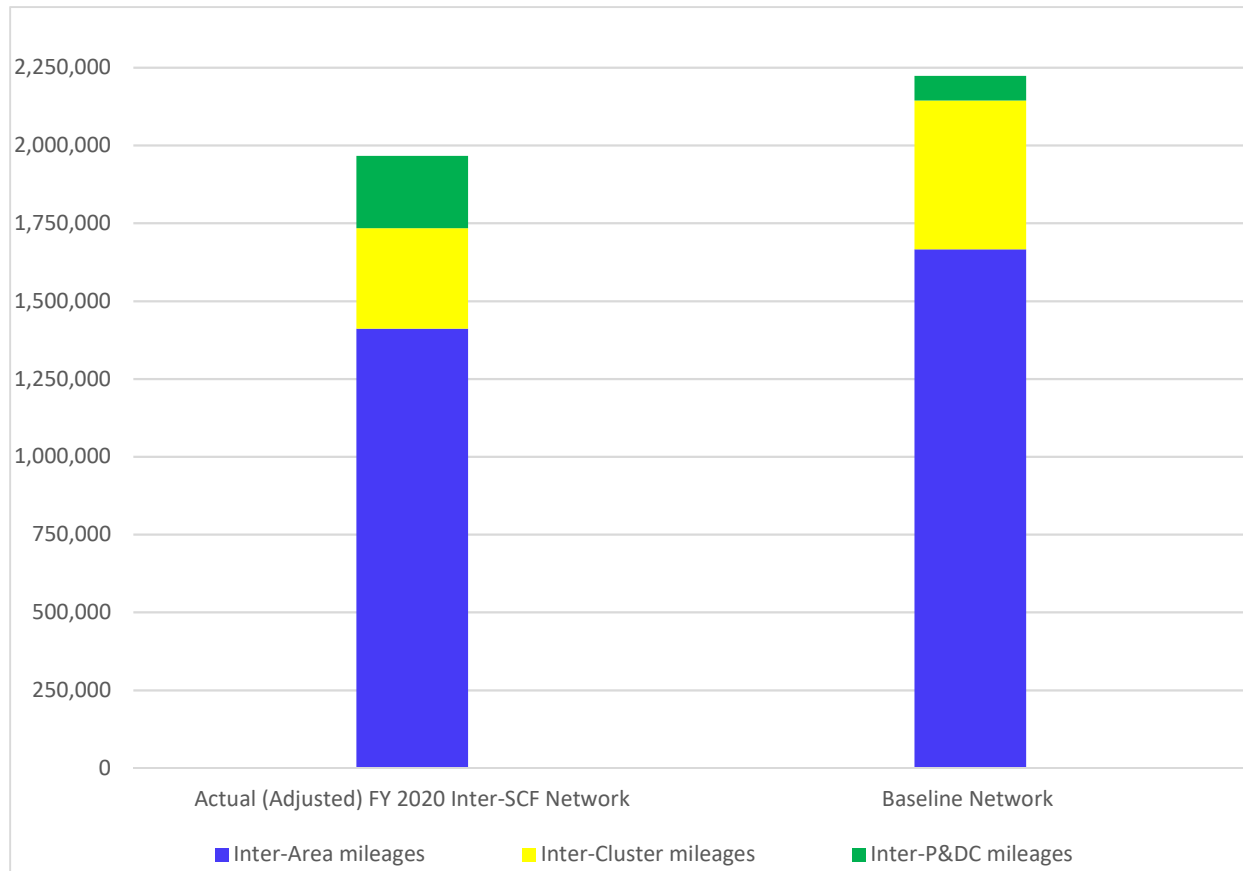
¹⁶⁶ See Response to POIR No. 2, question 7; Response to POIR No. 4, question 17.b.; Docket No. N2021-1 Tr. 1/187.

between the baseline and the final networks is accurate. The Postal Service did not demonstrate that FY 2020 surface transportation costs would have been incurred had the baseline network's "different trip distribution" been in place in FY 2020.

As discussed in the following section, the Commission concludes that the baseline network model is not an accurate reflection of FY 2020. If all aspects of transportation were considered within the scope of the model, and all of the Postal Service's operational realities were accounted for as they were in the actual (adjusted) FY 2020 inter-SCF network, the baseline network's "different trip distribution" would not have been accomplished. Next, the Commission examines the difference between the baseline and the actual (adjusted) FY 2020 inter-SCF networks.

Figure VII-4 compares the daily mileages in the baseline and the actual (adjusted) FY 2020 inter-SCF network.

Figure VII-4
Daily Mileages in the Actual (Adjusted) FY 2020 Inter-SCF Network
and in the Modeled Baseline Network, by Contract Category



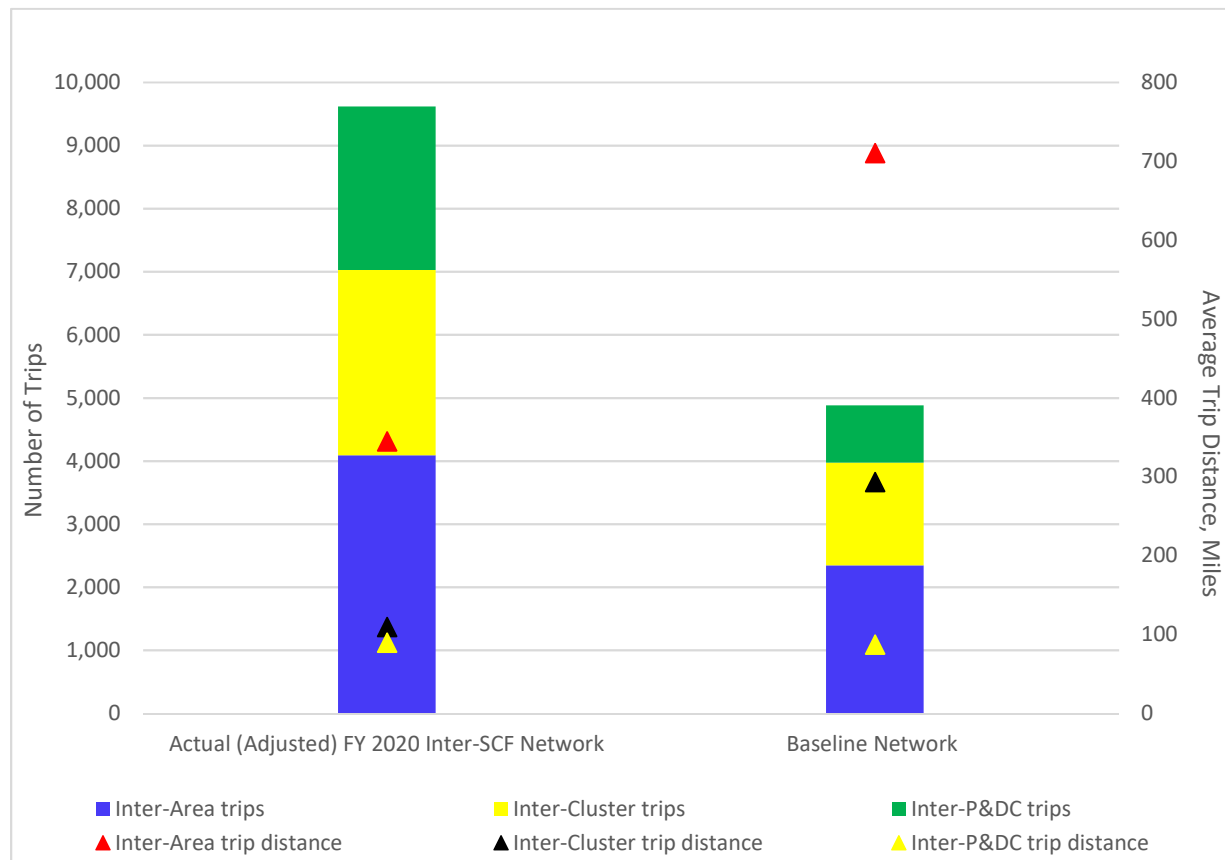
Source: Library Reference N2021-2/4, Excel file
"14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx," tab "Finance_Summary Surface;"
Response to POIR No. 2, question 4.

As depicted in Figure VII-4, the modeled baseline network includes more mileages than the actual (adjusted) FY 2020 inter-SCF network. The baseline network, which represents an optimized solution and was built using a different trip structure, includes more inter-Area and inter-Cluster mileages and fewer inter-P&DC mileages than the actual (adjusted) FY 2020 inter-SCF network.¹⁶⁷

Figure VII-5 shows the number of daily trips and the average trip distances in the modeled baseline network and the actual (adjusted) FY 2020 inter-SCF network.

¹⁶⁷ More specifically, the modeled baseline network includes 18 percent more inter-Area mileages, 48 percent more inter-Cluster mileages, and 66 percent fewer inter-P&DC mileages than the actual (adjusted) FY 2020 inter-SCF network, for 13 percent more overall mileages in the baseline network than in the actual (adjusted) FY 2020 inter-SCF network.

Figure VII-5
Daily Trips and Average Trip Distances (Miles)
in the Actual (Adjusted) FY 2020 Inter-SCF Network and
in the Modeled Baseline Network, by Contract Category



Source: Library Reference N2021-2/4, Excel file
 "14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx," tab "Finance_Summary Surface;"
 Response to POIR No. 2, question 4.

Figure VII-5 illustrates that the modeled baseline network includes substantially fewer trips. Its trips are notably longer, on average, for the modeled inter-Area and inter-Cluster transportation.¹⁶⁸

The Commission interprets the significantly reduced frequency of baseline network trips as associated with the model building multi-stop trips (*i.e.*, trips picking up or dropping off volumes along the way to destination) or adding trip stops at aggregation sites/STCs. Such trips are longer because they combine inter-P&DC trips as trip legs on inter-Cluster and inter-Area trips. The baseline model containing such multi-stop trips would explain the comparatively higher inter-Cluster and inter-Area mileages, and the lower inter-P&DC mileages, contained in the baseline network as compared to the actual (adjusted) FY 2020 inter-SCF network. Efficient trips, such as these, would also lead to improved utilization of transportation capacity and to elimination of redundant transportation.¹⁶⁹

The Commission notes that it is both the efficient trip structure and the model's numerous limitations that may have enabled the optimal baseline network routings. As detailed in Figure VII-5, the baseline model routes the network's volumes using half of the actual (adjusted) FY 2020 inter-SCF network's trips.

¹⁶⁸ More specifically, the baseline network includes 43 percent fewer inter-Area trips, 44 percent fewer inter-Cluster trips, and 65 percent fewer inter-P&DC trips. Overall, the baseline network includes 49 percent fewer trips than the actual (adjusted) FY 2020 inter-SCF network. At the same time, baseline network trips are approximately two times longer for inter-Area transportation and approximately three times longer for inter-Cluster transportation than in the actual (adjusted) FY 2020 inter-SCF network.

¹⁶⁹ Capacity utilization is 21 percentage points higher in the modeled baseline network (66 percent) than in the actual (adjusted) FY 2020 inter-SCF network (45 percent). Response to POIR No. 2, question 4; Docket No. N2021-1 Tr.1/175.

The model's limitations include:

- reduced complexity of business rules;
- lack of accounting for site-specific operational constraints;
- lack of accounting for relationships with transportation deemed outside the scope of the model;
- potentially inadequate average speed assumptions to properly account for the U.S. Department of Transportation (DOT)-required breaks for longer-distance transportation;
- potentially inadequate assumptions to properly account for volume transfers at aggregation sites/STCs; and
- only one-way trips being modeled.¹⁷⁰

Revised USPS-T-1 at 22-24, 31-32.

To summarize, the modeled baseline network is responsive to reduced or simplified business/operational obligations; assumes smooth processing and docking operations, timely departures from origins, volume pairings at origins or aggregation sites/STCs, and timely processing and volume transfers at STCs; is not hindered by bottlenecks;¹⁷¹ and assumes no transportation delays. The cumulative effect of these simplifications could have contributed to the notable consolidation of transportation in the baseline network.

As discussed in the Docket No. N2021-1 Advisory Opinion, the Postal Service has previously pursued initiatives to improve capacity utilization and reduce network trips. Docket No. N2021-1 Advisory Opinion at 121-22. These efforts were hindered by time constraints and by the inability to eliminate trips needed for other purposes, both of which necessitate maintaining certain trips at particular times. *Id.* The same obstacles

¹⁷⁰ Docket No. N2021-1 Tr. 1/187. The Public Representative also points to the Postal Service's model being "susceptible to errors, flaws and other deficiencies." PR Brief at 17 n.33.

¹⁷¹ Docket No. N2021-1 Tr. 1/309-10.

that the Postal Service has faced in the past, trying to optimize the network, might impede implementation of the modeled routings.¹⁷²

The analysis presented above highlights that if all transportation was deemed within the scope of the model,¹⁷³ and all of the Postal Service's operational realities were accounted for as they were in the actual (adjusted) FY 2020 inter-SCF network, the baseline network's "different trip distribution" would not have been accomplished. This leads the Commission to conclude that it is inaccurate to assume that the FY 2020 surface transportation costs correspond to the baseline network model.

Furthermore, it is potentially concerning that, as illustrated in Figures VII-4 and VII-5, even with only half of the actual (adjusted) FY 2020 inter-SCF network's trips, the baseline network's overall mileages are 13 percent higher.

In the next section, the Commission examines mileages, daily trips, and average trip distances in the final network scenario for the FCM/FCPS Model (final network), and compares them to mileages, daily trips, and average trip distances in both the baseline and the actual (adjusted) FY 2020 inter-SCF networks.

Final network. The proposed service standards for FCM and FCPS were introduced to the modeled baseline network analyzed above. Following two iterations and a final determination of cost-effectiveness, the resulting final surface network includes efficient routings to move both volumes currently in the surface network, with

¹⁷² This would be due to disregarding certain operational realities in the modeling.

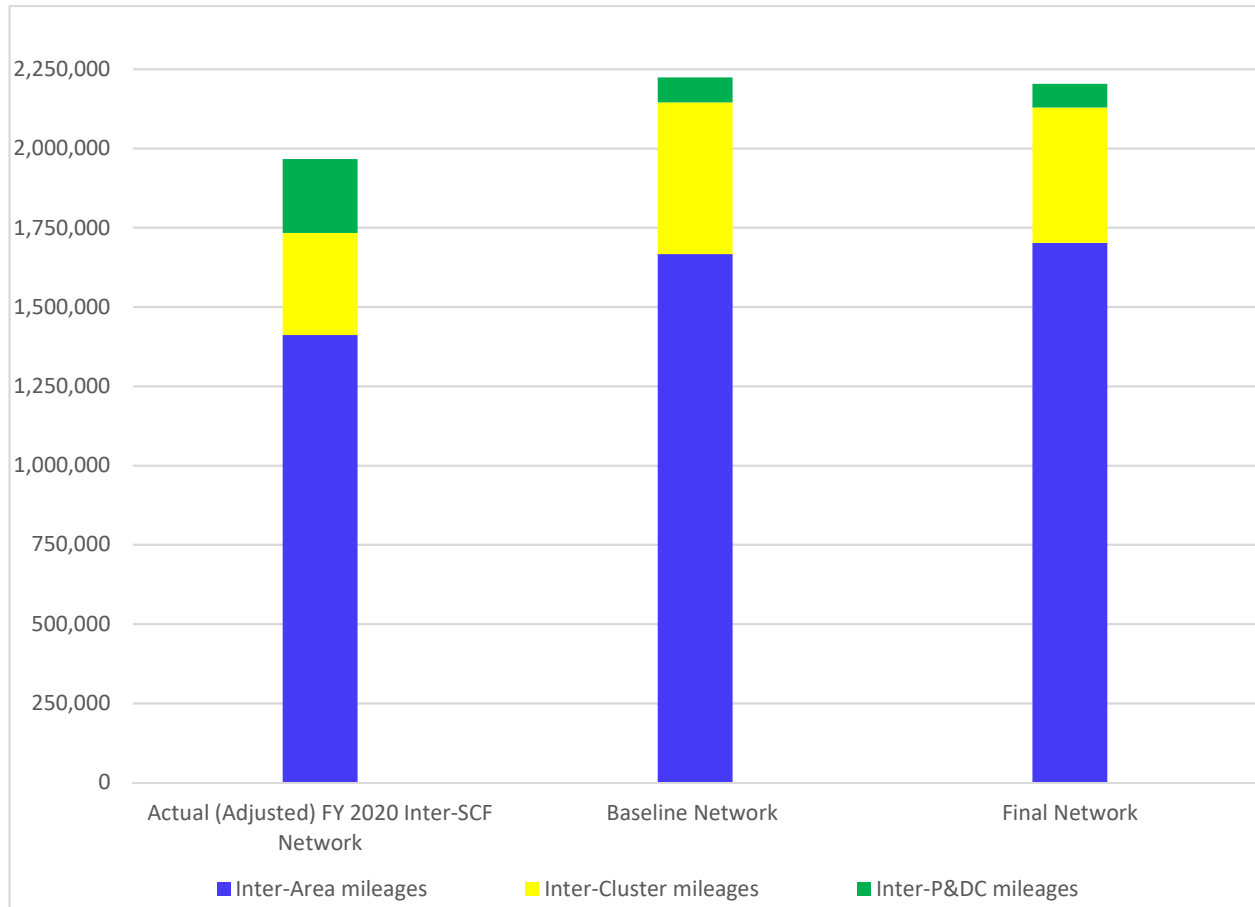
¹⁷³ As observed by the Postal Service Office of Inspector General, while some routes can be adjusted, and the number of trucks changed, "...there may be some trips that cannot be eliminated without putting the network in jeopardy." United States Postal Service, Office of Inspector General, Report No. RARC-WP-19-002, What's Driving Postal Transportation Costs?, March 18, 2019, at 10, available at <https://www.uspsaig.gov/sites/default/files/document-library-files/2019/RARC-WP-19-002.pdf> (OIG Report No. RARC-WP-19-002).

FCM and FCPS subject to the proposed service standards, and FCM and FCPS volumes projected to shift from the air to the surface transportation network.¹⁷⁴

Figure VII-6 shows final network mileages next to the baseline and the actual (adjusted) FY 2020 inter-SCF network mileages.

¹⁷⁴ As described in Section IV.B., the modeling was an iterative process, which first created optimized routings for the current surface OD Pairs using the proposed service standards (first iteration), then introduced current air OD Pairs into the model (second iteration), and finally analyzed the cost-effectiveness of the model's routing results for the current air OD Pairs, resulting in the final network that combined optimized routings for the current surface OD Pairs and for air OD Pairs, determined to be cost-effective (final network).

Figure VII-6
Daily Mileages in the Actual (Adjusted) FY 2020 Inter-SCF Network, in the Modeled Baseline Network, and in the Final Network, by Contract Category



Source: Library Reference N2021-2/4, Excel file
"14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx," tab "Finance_Summary Surface;"
Response to POIR No. 2, question 4.

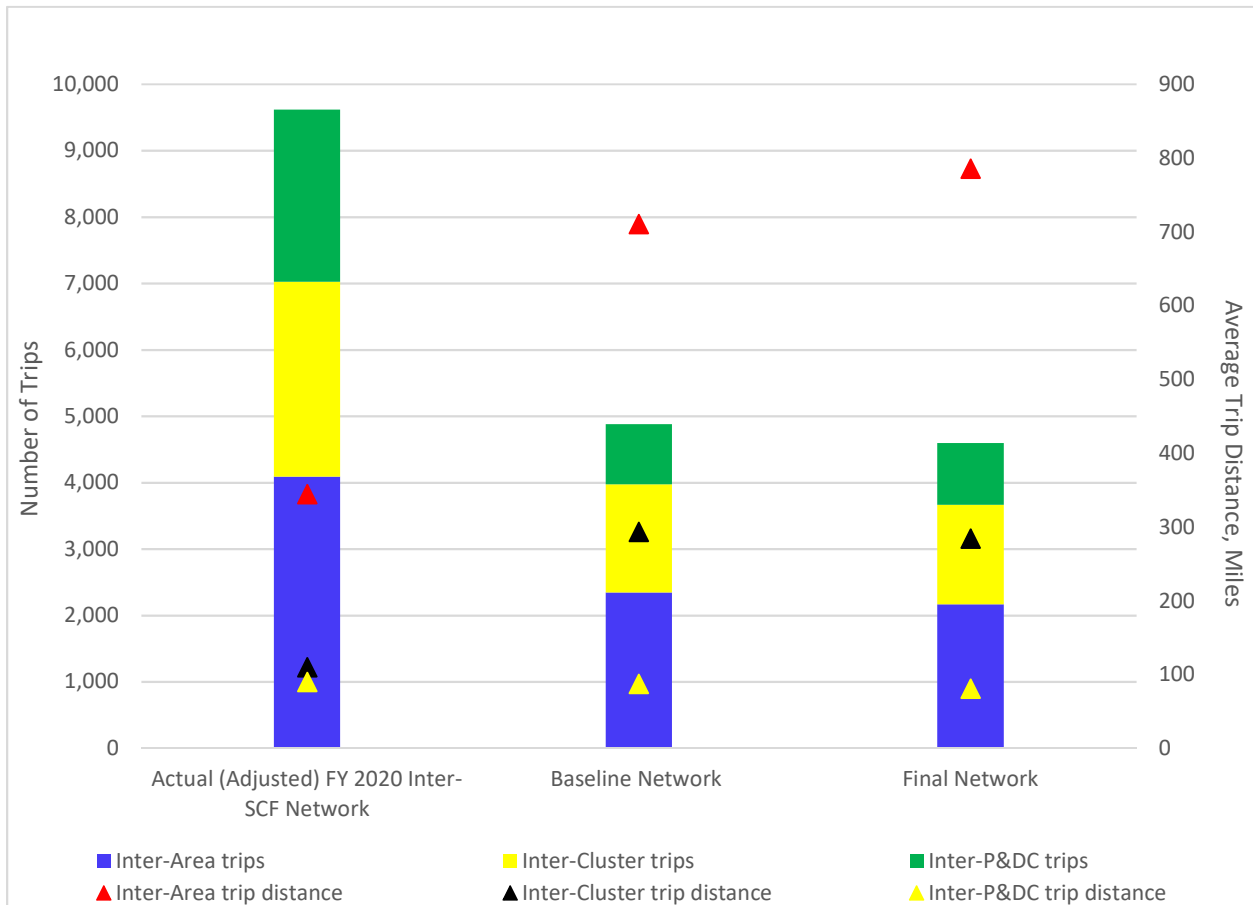
The data underlying Figure VII-6 detail that the Postal Service's FCM/FCPS Model projects 1 percent fewer surface network mileages in the final network than in the modeled baseline network.¹⁷⁵ Compared to the actual (adjusted) FY 2020 inter-SCF network, the final network includes 12 percent more mileages.¹⁷⁶

Figure VII-7 includes daily trips and average trip distances in the final, baseline, and the actual (adjusted) FY 2020 inter-SCF networks.

¹⁷⁵ The final network includes 2 percent more inter-Area mileages, 11 percent fewer inter-Cluster mileages, and 5 percent fewer inter-P&DC mileages than the baseline network.

¹⁷⁶ The final network includes 21 percent more inter-Area mileages, 33 percent more inter-Cluster mileages, and 68 percent fewer inter-P&DC mileages than the actual (adjusted) FY 2020 inter-SCF network.

Figure VII-7
Daily Network Trips and Average Trip Distances (Miles)
in the Actual (Adjusted) FY 2020 Inter-SCF Network,
in the Modeled Baseline Network, and in the Final Network, by Contract Category



Source: Library Reference N2021-2/4, Excel file
 "14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx," tab "Finance_Summary Surface;"
 Response to POIR No. 2, question 4.

The data underlying Figure VII-7 indicate that the final network includes 6 percent fewer trips than the baseline network and 52 percent fewer trips than the actual (adjusted) FY 2020 inter-SCF network.¹⁷⁷ The figure also illustrates the differences between the networks in terms of average trip distance. In the final network, the average trip is 5 percent longer than in the baseline network, and it is 134 percent longer than in the actual FY 2020 network.¹⁷⁸

The Postal Service explains that the proposed changes to FCM and FCPS service standards would allow more efficient surface routings.¹⁷⁹ It asserts that the changes would enable volume shifts from the more costly and less reliable air transportation network, since they significantly extend the surface transportation reach capability for 4-day and 5-day volumes. Revised-USPS-T-1 at 16-17.

Figure VII-7 indicates that the final network includes significantly fewer trips than the actual (adjusted) FY 2020 inter-SCF network, with much longer inter-Cluster and inter-Area trips. However, as shown in Figure VII-6, the extended surface transportation reach would lead to an increase in mileages in the final network, even with half of the actual network's trips eliminated.

¹⁷⁷ By HCR contract category: the final network includes 8 percent fewer inter-Area trips, 8 percent fewer inter-Cluster trips, and 3 percent more inter-P&DC trips than the baseline network. Compared to the actual (adjusted) FY 2020 inter-SCF network, the final network includes 47 percent fewer inter-Area trips, 49 percent fewer inter-Cluster trips, and 64 percent fewer inter-P&DC trips.

¹⁷⁸ By HCR contract category: average Inter-Area trip distance increases from 711 miles in the baseline network to 786 miles in the final network. This represents an 11 percent increase in inter-Area trip distance, on average, from the baseline network to the final network with expanded surface reach, moving long-distance volumes diverted from air. For comparison, average inter-Area trip distance in the actual (adjusted) FY 2020 inter-SCF network is 345 miles. As for inter-Cluster transportation, average trip distance decreases from 293 miles in the modeled baseline network to 284 miles in the final network; actual (adjusted) FY 2020 inter-SCF network's inter-Cluster trip is 110 miles long, on average. Average inter-P&DC trip distance decreases from 87 miles in the modeled baseline network to 81 miles in the final network. Average inter-P&DC trip is approximately 90 miles long in the actual (adjusted) FY 2020 inter-SCF network.

¹⁷⁹ This phrase is used to refer to routings that would require fewer network mileages traveled and fewer network trips performed to transport both current network volumes and the diverted air FCM and FCPS volumes.

Figures VII-6 and VII-7 illustrate an observable difference between the actual (adjusted) FY 2020 inter-SCF network and each of the baseline and the final networks. However, the difference between the baseline and final networks is not as significant.

The Commission reiterates its concerns with the baseline network and notes that most of the final network efficiencies have already been accomplished in the modeled baseline network. For example, the Postal Service explains that in the current network, surface volume reach is only 38 hours or less of drive time for FCPS and 28 hours or less for FCM.¹⁸⁰ With the expanded transit windows, surface transportation reach would be extended to 50 hours or more of drive time for FCPS and to 41 hours or more for FCM. Docket No. N2021-1 USPS-T-1 at 17; Revised USPS-T-1 at 26. These expanded transit windows mean that the future network can contain routes that are much longer than the current network.¹⁸¹ Comparing the actual (adjusted) FY 2020 inter-SCF network and the final network in Figure VII-7 reveals a large increase in inter-Area and inter-Cluster trip distances. However, Figure VII-7 also reveals that trips in the baseline network (*i.e.*, network with the surface transportation reach limited by the existing transit windows) have virtually the same average distance as in the final network.

NALC reiterates the Commission's concerns regarding the Postal Service's transportation model from the Docket No. N2021-1 Advisory Opinion and warns that the projected impacts on volumes and on the transportation network presented by the Postal Service in the instant proceeding are questionable. NALC Statement at 2-3.

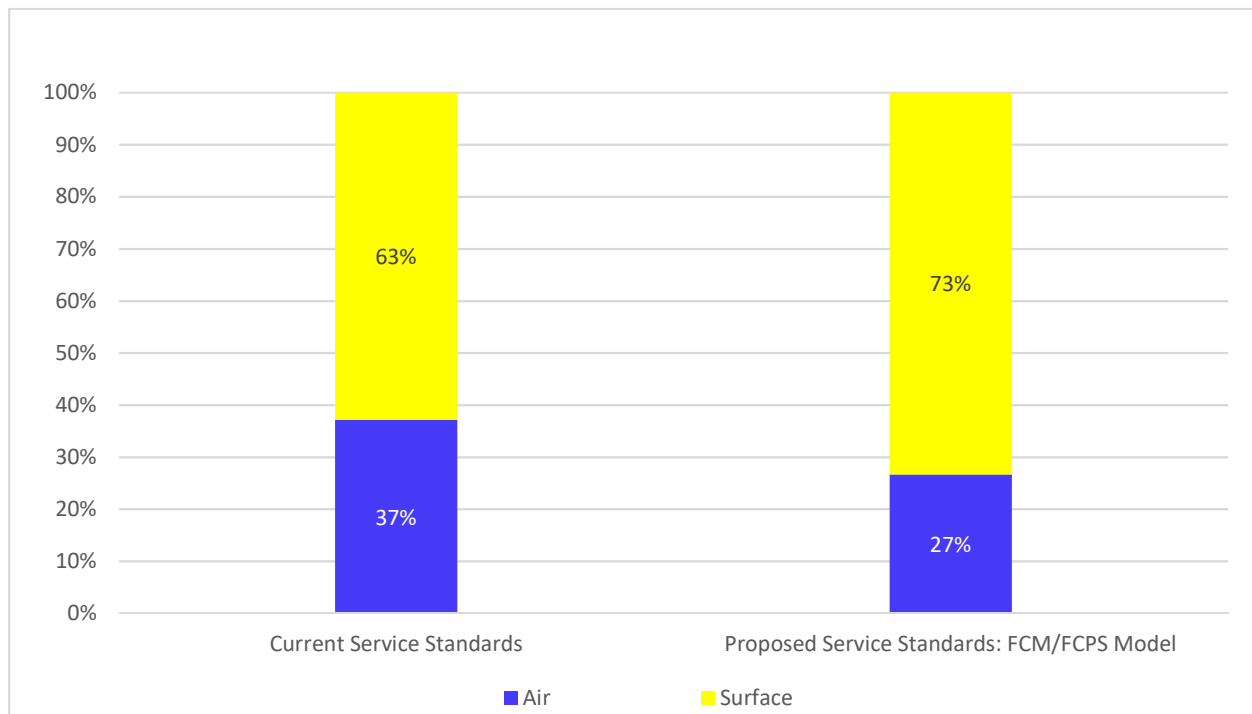
¹⁸⁰ Docket No. N2021-1, Direct Testimony of Robert Cintron on Behalf of the United States Postal Service (USPS-T-1), April 21, 2021, at 19 (Docket No. N2021-1 USPS-T-1); Revised USPS-T-1 at 16.

¹⁸¹ If the Postal Service implements the network routings as designed in the modeling exercise, the future network will have long coast-to-coast routings. The expanded windows allow the Postal Service the flexibility to include these long trips but offer no guarantee that such long-distance routes will be feasible from a service and cost perspective.

Comparison of the projected transportation efficiencies achieved in the FCM Only Model and in the FCM/FCPS Model. The Postal Service notes that the transportation efficiencies projected by the FCM/FCPS Model are based on the implementation of service standard changes to both FCM and FCPS. It states that the changes to FCPS service standards would lead to \$42 million in additional transportation savings as compared to savings estimated from the FCM Only Model. Revised USPS-T-1 at 37.

The following two figures summarize the Postal Service's projected impact of the implementation of FCM and FCPS service standard changes on the volume in the air and surface transportation networks. Figure VII-8 shows proportions of FCPS volumes assigned to air and surface transportation modes under the current service standards and under the proposed service standards in the FCM/FCPS Model.

Figure VII-8
Percent of FCPS Volume Assigned to Transportation Modes
Under Current Service Standards and Under Proposed Standards
in the Final Network from the FCM/FCPS Model

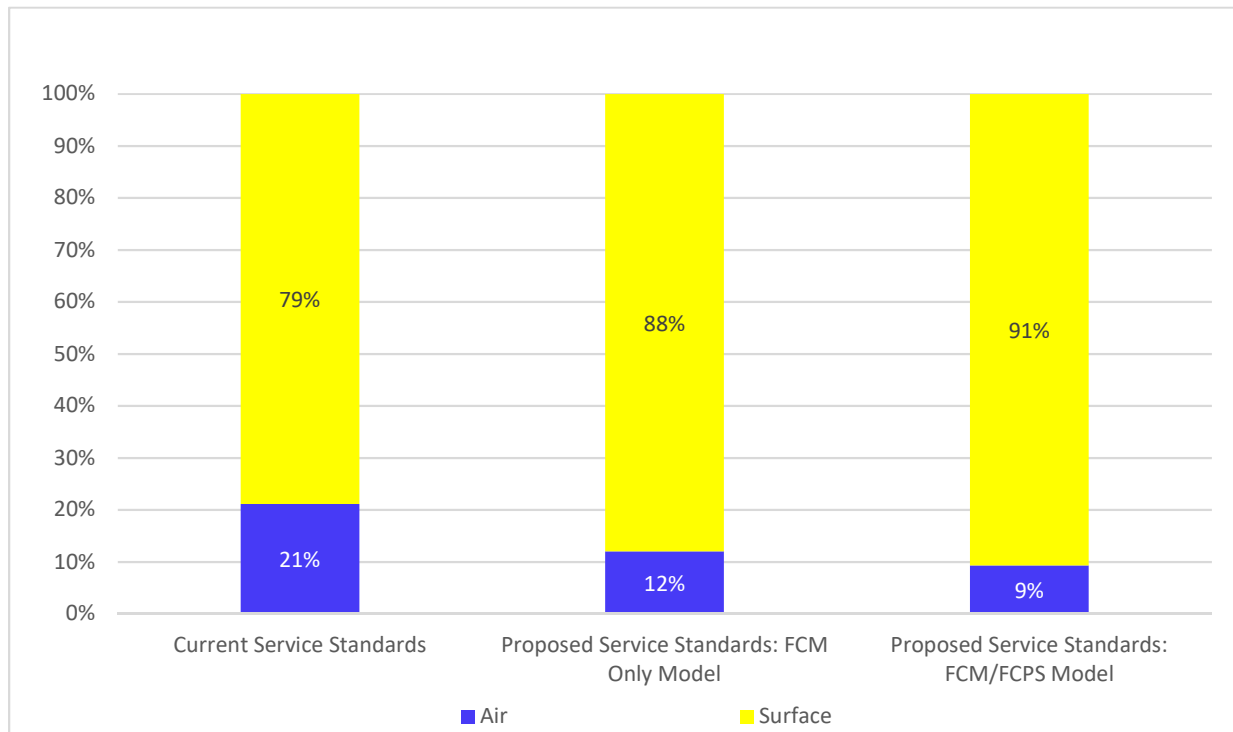


Source: Library Reference USPS-LR-N2021-2/NP10, July 23, 2021, Excel file "POIR No.4 Q18 Final.xlsx."

The Postal Service projects that the percentage of FCPS volume that is transported in the air network will decrease 10 percentage points after the implementation of the change in service standards and concurrent changes to transportation assignments. Revised USPS-T-1 at 37.

Figure VII-9 summarizes the proportions of FCM volumes assigned to air and surface transportation modes in the current transportation network in the FCM Only Model and in the FCM/FCPS Model.

Figure VII-9
Percent of FCM Volume Assigned to Transportation Modes
Under Current Service Standards,
Under Proposed Standards in the Final Network from the FCM Only Model, and
Under Proposed Standards in the Final Network from the FCM/FCPS Model



Source: Docket No. N2021-1, Library Reference USPS-LR-N2021-1/3, April 21, 2021 (Docket No. N2021-1 Library Reference USPS-LR-N2021-1/3), Excel file "3_SSD_5D_Vol_Impacts_CONUS.xlsx;" Library Reference USPS-LR-N2021-2/NP10, Excel file "POIR No.4 Q18 Final.xlsx."

As illustrated in Figure VII-9, the introduction of both the FCM and FCPS service standards to the network would enable more FCM volumes to shift from air to surface transportation than was projected in the FCM Only Model.¹⁸²

The Commission notes that of the total combined FCM and FCPS weight assigned in the FCM/FCPS Model to divert to the surface transportation network, FCM weight represents 87 percent.¹⁸³

The Postal Service projects the corresponding increase in volume served by surface transportation to lead to a 1 percent increase in overall mileages in the final network, with inter-Area mileages projected to increase and inter-Cluster and inter-P&DC mileages projected to decrease, as shown in Figure VII-6.

The Postal Service calculates that the combination of projected mileage increase for inter-Area transportation and projected mileage decreases for inter-Cluster and inter-P&DC transportation will amount to \$10 million in savings on surface transportation costs. Library Reference USPS-LR-N2021-2/1, Excel file “FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx,” tab “Highway.”

Table VII-7 summarizes changes in surface network mileages projected in the FCM Only Model and in the FCM/FCPS Model, as compared to the baseline model.

¹⁸² The Commission notes that the FCM Only Model determined that the diverted FCM and remittance volumes were insufficient to add expensive, long-distance transportation to the surface network in a cost-effective manner, placing them either on existing surface routings or on a combination of existing routings and legs created exclusively for the diverted volumes. Docket No. N2021-1 Tr. 1/175.

¹⁸³ As for the calculated \$304 million in savings on air transportation, diverted FCM accounts for 80 percent of the estimated savings. Library Reference USPS-LR-N2021-2/NP1, Excel file “FCPS Transportation Savings-NonPublic.Rev.7.2.2021.xlsx.”

Table VII-7
Comparison of Surface Network Mileage Changes in the FCM Only Model and the FCM/FCPS Model, Against the Baseline Network, by Contract Category

Contract Category	Modeled Mileages			Projected Change in Mileages*	
	Baseline Network	Final Network FCM Only Model	Final Network FCM/FCPS Model	Final Network FCM Only Model vs. Baseline Network**	Final Network FCM/FCPS Model vs. Baseline Network
Inter-Area	1,666,328	1,556,645	1,701,538	-7%	+2%
Inter-Cluster	478,193	461,998	427,254	-3%	-11%
Inter-P&DC	79,109	76,861	75,213	-3%	-5%
TOTAL	2,223,630	2,095,504	2,204,005	-6%	-1%

Notes:

* In Docket No. N2021-1, surface transportation costs were projected to decrease by \$83.5 million. Docket No. N2021-1 Advisory Opinion at 100-01. The Postal Service revised this estimate to \$76.3 million. See Library Reference USPS-LR-N2021-2/NP1, file “Calculating Transportation Cost Changes, REVISED.pdf.”

** On July 2, 2021, the Postal Service filed revised values for network mileages. The revision applied to the baseline and the final network mileages that were initially filed in the instant proceeding on June 17, 2021, that appear in Library Reference USPS-LR-N2021-2/4 and in Library Reference USPS-LR-N2021-2/NP2. The revision also applies to baseline and final network mileages, as well as the projected change in final modeled network mileages, which were filed in Docket No. N2021-1 Library Reference USPS-LR-N2021-1/3. The revision added “feeder to aggregate” mileages to the modeled networks. The Postal Service explains that “feeder to aggregate” mileages were estimated outside the model and were inadvertently omitted from the analysis. Response to POIR No. 2, question 2.b.

Source: Library Reference USPS-N2021-2/4, July 2, 2021, Excel file
 “14_SSD_5D_Vol_Impacts_CONUS_NP(REV7.2.21).xlsx,” tab “Finance_Summary Surface.”

The data in Table VII-7 show that the Postal Service estimates greater mileage reductions in the FCM/FCPS Model for inter-P&DC and inter-Cluster transportation as compared to the FCM Only Model. Table VII-7 also demonstrates that the Postal Service estimates an increase in inter-Area mileages in the FCM/FCPS Model from the baseline model, whereas the FCM Only Model projected a reduction in inter-Area mileages as compared to the baseline model.

The Postal Service describes an overall different distribution of trips in the FCM/FCPS Model versus the FCM Only Model. It explains that the differences in projections between the two models are because the FCM/FCPS Model contains more optimal trips and more STC usage. See Response to POIR No. 2, question 2.a. The Postal Service elaborates that the FCM/FCPS Model also contains more long haul trips, which are associated with volume being shifted from the air to the surface network. See *id.*

The Postal Service projects a reduction in surface network mileages and consolidation of trips because of increased opportunities to pair network volumes. The Postal Service asserts that combined implementation of the proposed FCM and FCPS service standards will lead to increased opportunities for efficiency. Revised USPS-T-1 at 15-17; see Docket No. N2021-1 Advisory Opinion at 125.

The Postal Service clarifies that the determination to pair different products' volumes onto the same transportation is based on products' CETs, locations where products are processed, and cubic foot space requirements. Response to POIR No. 4, questions 19.a.-19.b.

The Commission is concerned that the Postal Service may experience operational difficulties associated with combining mail shapes and achieving additional efficiencies.¹⁸⁴ The data provided by the Postal Service indicate that 43 percent of FCPS and 46 percent of FCM volume is currently processed at the same origin P&DC facility,¹⁸⁵ which means that the majority of FCPS and FCM volumes are processed at separate origin facilities. The Postal Service will have to pair FCM and FCPS volumes at origin aggregation sites or at STCs in order to put this mail on the same trucks, because this mail is not processed at the same location. The Commission notes that the Postal Service has not provided an operational test to show the strengths and weaknesses of this approach. The Commission also observes that the modeling provided by the Postal Service was not designed to capture the complexity of this mail aggregation operation.

The Postal Service concludes that the more efficient routings created by the FCM/FCPS Model would result in \$42 million in additional savings as compared to the FCM Only Model. Revised USPS-T-1 at 37. These additional savings comprise an additional \$108 million in savings on air transportation and \$66 million in added surface transportation expenses.¹⁸⁶

The Public Representative expresses concern with the implementation date for FCPS service standard changes coinciding with that for FCM service standards

¹⁸⁴ Parcel-shaped products will continue to have 12 additional hours available in their transit window. The destination CETs are based on product and shape. For letters and flats, the destination CET used in the model is 8:00 the day prior to the scheduled delivery day; for parcels, the model uses 20:00 CET the day prior to the scheduled delivery day. Revised USPS-T-1 at 29. The Postal Service adds that while destination CET for FCPS is 20:00, the CET for Priority Mail is 22:00. Response to POIR No. 13, question 1.

¹⁸⁵ Library Reference USPS-LR-N2021-2/NP10, Excel file "POIR No.4 Q18 Final.xlsx." The referenced data include 148 unique origin P&DCs for FCM volumes and 137 unique origin P&DCs for FCPS volumes. Of those, 85 origin P&DCs process both FCM and FCPS volumes.

¹⁸⁶ Library Reference USPS-LR-N2021-2/1, Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Summary." Of the additional \$108 million in savings on air transportation, approximately half is attributable to diverted FCPS volume, and the other half is attributable to additional FCM volume diverted from the air network in the FCM/FCPS Model, compared to the FCM Only Model.

changes. PR Brief at 12. She notes that the projected impact of changes to FCPS service standards “are predicated on the implementation of service standard changes proposed in Docket No. N2021-1,” asserting that the implementation of FCM service standards changes has no record of success and that both products’ proposed changes were not subject to operational nor pilot testing, thus, presenting risks to the Postal Service. *Id.* at 12-13.

The modeling results were produced by the Postal Service using simplified assumptions and subject to limitations. The Postal Service acknowledges that implementation will require review and refinements. The potential impacts that the model’s limitations may have on the presented results are discussed in the following section.

b. Other Modeling Issues

The Postal Service acknowledges that the modeling results are subject to final review by transportation planners, who will need to consider both the modeled routings and existing transportation lanes, accommodate all products served in the network, and ensure that the transportation network is responsive to all of its complexities, prior to implementation. Docket No. N2021-1 Tr. 1/333. Consequently, the Postal Service considers its transportation model a “decision-supporting” rather than a “decision-making” tool. Revised USPS-T-1 at 32.

This form of presentation used by the Postal Service significantly limits the Commission’s ability to meaningfully assess the foundation of the Postal Service’s proposal. The Postal Service states that “Postal management deems the implementation of the service changes described in this filing as necessary to assure that the Postal Service remains a viable, financially healthy institution that can continue to play a vital role in serving the changing communications and delivery needs of the American people well into the 21st century.” Revised USPS-T-1 at 42. Because the

Postal Service has not provided an implementation plan, the Commission cannot verify the accuracy of the Postal Service's claim.

In this section, the Commission discusses the modeling assumptions and the model's limitations, in an effort to evaluate their potential impacts on the projected transportation network changes.

Site-specific operational nuances. In Docket No. N2021-1, the Postal Service described general processing issues as not being accounted for in the FCM Only Model. Docket No. N2021-1 Advisory Opinion at 140. In the instant proceeding, the Postal Service states that "[o]utside of timing limitations, the model was not restricted in any way that would prevent products from routing together."¹⁸⁷

However, a significant reduction in network trips was achieved in both the modeled baseline and the final networks, as compared to the actual (adjusted) FY 2020 inter-SCF network. See Figure VII-7. The consolidation of trips in the modeled network (as compared to the actual FY 2020 data) may be partly attributed to the model not accounting for operational issues, such as staffing issues and employee errors. The Postal Service also describes capacity constraints associated with the significant increase in package volume in recent years¹⁸⁸ and states that these constraints currently lead to separate routings for mail and packages in many instances.¹⁸⁹

¹⁸⁷ Response to POIR No. 4, question 19.b. The Commission interprets the Postal Service's reference to timing limitations to mean the drive times between origin P&DC – destination ADC – destination SCF facilities, using a 46.5 mph average speed assumption, including the 2 hours for volume transfers at STCs and accounting for the differing CETs for different products.

¹⁸⁸ See United States Postal Service, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*, March 23, 2021, at 9-10, available at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf, Docket No. N2021-1 Tr. 1/312, 331.

¹⁸⁹ Docket No. N2021-1 Tr. 1/312, 331; Response to POIR No. 4, question 19.b. The capacity constraints also lead to large increases in air transportation charter costs.

While the Postal Service states that the expanded transportation windows will allow it to better absorb origin delays, the Postal Service also describes acquiring additional spaces and deploying new package processing equipment to accommodate package growth.¹⁹⁰ The Postal Service expects its processing and transportation changes to evolve and progress throughout FY 2022. See Response to POIR No. 4, question 9.b.i. Because the Postal Service anticipates a transition period throughout FY 2022, this would also include adjustments to help sites be successful. Without such adjustments in place, the Postal Service's projections of trip consolidation may not be realized.

Volume transfers at STCs. A key component of the Postal Service's proposal is the efficient usage of STCs to aggregate mail and consolidate trips. The Postal Service states that the combined implementation of service standard changes for both FCM and FCPS will result in even more volume transferring via STCs than it projected in its FCM Only Model. Response to POIR No. 2, question 2.a. In Docket No. N2021-1, the Commission expressed concern regarding the method of implementation for expanded operations at STCs. See Docket No. N2021-1 Advisory Opinion at 134-38. Here, the Postal Service uses the same assumptions regarding STC operations. The Postal Service allots the same 2 hours for shipments routed through STCs as in the FCM Only Model and states that the expected increase in STC transfers in the FCM/FCPS Model is "not expected to significantly impact any STCs ability to meet [the 2 hour processing time] constraint." Response to POIR No. 2, question 6.c.i.

While the Postal Service does not expect a significant impact to timely processing at the STCs, it also clarifies that it monitors only the time from trip arrival to trip unload and does not monitor the total cycle time, which includes trip unload, processing, and loading of volumes onto outbound transportation, at individual sites. *Id.*

¹⁹⁰ Docket No. N2021-1 Tr. 1/312; Response to SH/USPS-T1-5. The Postal Service states that it has acquired additional space in 46 locations to accommodate package growth, purchased 138 package sorting machines, and added more than 14,000 permanent positions to its workforce, all to facilitate timely processing and delivery operations. Docket No. N2021-1 Tr. 1/309.

question 6.c.iii. The Postal Service states that it currently takes 4.14 hours, on average, to transfer volumes at STCs. Docket No. N2021-1 Tr. 1/199.

In order for the Postal Service's proposed changes to successfully lead to reduced cost and increased service reliability, operations at STCs will have to be both cost-effective and timely. In the past, the Postal Service has acknowledged difficulty finding hub locations that could handle volume transfers. The Postal Service has also acknowledged the possibility that volume transfers through the STCs that experience workload constraints could be limited until these sites are evaluated and adjusted. *Id.* at 372-73. Despite this, the Postal Service has not provided evidence to show that this operational component will not be a hurdle to successful implementation.

In addition to concerns related to timely operations at STCs, the Postal Service Office of Inspector General (OIG) described challenges associated with recent implementation of the STC redesign observed at origin processing sites.¹⁹¹ Specifically, the report states that the STC redesign negatively impacted some origin aggregation sites' processing and dock operations. OIG Report No. 21-047-R21 at 12. The challenges include lack of dock space to process the increased mail volumes scheduled for consolidations at STCs. *Id.* The report also describes an associated increase in the number of trailers at sites, transporting mail for further consolidation, which leads to dock congestions, transportation delays, and volumes missing scheduled transportation. *Id.*

The Commission notes that these challenges were observed in the existing network, *i.e.*, network in which STC volume transfers are still limited by the existing service standards and lower mail volumes routed via the surface network than in the modeled network. Delayed transportation from originating facilities could lead to

¹⁹¹ See United States Postal Service, Office of Inspector General, Service Performance – First-Class Single Piece Letter Mail, September 3, 2021, available at <https://www.uspsoig.gov/sites/default/files/document-library-files/2021/21-047-R21.pdf> (OIG Report No. 21-047-R21).

delayed outbound STC trips, or it could lead to increased frequency and decreased utilization of outbound STC trips, both resulting in diminished surface network efficiencies than those modeled. As the Postal Service has emphasized, its modeling relies on assumptions that presume sufficient additional space will be secured to alleviate the existing congestion and handle the anticipated shifts in volume that would result from implementing the proposed changes;¹⁹² however, the Postal Service also acknowledges that this process will progress into and throughout FY 2022.¹⁹³

The Commission recommends that the Postal Service test its plan to expand STC operations and evaluate the collective impact of the proposed network changes on processing, transportation, and delivery operations before implementing the proposed FCM and FCPS changes. Doing so would better ensure that these challenges will not be an operational hurdle that jeopardizes the success of the Postal Service's planned operational changes.

Transit time. The Postal Service explains that the transit times determined in the model represent combined drive times between nodes on the way from the origin P&DC to the destination SCF, and that they are based on the average vehicle speed of 46.5 mph for OD Pairs up to 1,000 miles and 55 mph for OD Pairs longer than 1,000 miles. Revised USPS-T-1 at 26. The Postal Service acknowledges that the referenced average speed assumptions, used in its model, may not have accounted for the DOT-required breaks for the modeled long-distance transportation. Docket No. N2021-1 Tr. 1/187.

The redesigned transportation network will require contract modifications for existing HCR transportation to be implemented. The Postal Service explains that the requestor of an HCR contract change generally uses the 46.5 mph speed to determine transit times. *Id.* at 1/183. However, for contract modifications with existing trips in a

¹⁹² See, e.g., Response to POIR No. 1, questions 4.a., 4.c.; Response to POIR No. 4, questions 2.c., 2.d.

¹⁹³ See Response to POIR No. 4, question 9.b.i.; see also Response to POIR No. 11, question 3.

specific lane, on-time performance and other issues are taken into account, and transit times may be recalculated based on a different average speed assumption. *Id.*

As a result, some of the modeled routings may require longer transit times and may not be possible to implement as modeled. The trips that would be most impacted are longer-distance trips, due to longer distances traveled and more of the transit time impacted. The Commission emphasizes that in the final network, 80 percent of trips and 97 percent of projected mileages are in the longer distance inter-Area or inter-Cluster categories.¹⁹⁴ This renders the vast majority of transportation in the modeled network vulnerable to potential transit time adjustments.

New HCR contracts and existing HCR contracts' modifications. As noted earlier, restructured trips covered by existing contracts would require contract modifications, which the Postal Service explains may lead to increased rate per mile. Docket No. N2021-1 Tr. 1/212. Moreover, while modified HCR contracts may lead to rate-per-mile increases, newly purchased long-distance transportation will be subject to market rates upon implementation and will reflect difficulties HCR suppliers face hiring and retaining drivers. Response to APWU/USPS-T1-4. However, the cost savings associated with reduced mileages and the cost increases associated with added inter-Area mileages were calculated assuming the rate per mile that applied to contracted inter-SCF transportation in FY 2020.

Potential for new inefficiencies. The Postal Service explains that should volumes on long-distance surface lanes decline and no longer warrant surface transportation, such lanes would be routed via the air network.¹⁹⁵ The Commission describes two

¹⁹⁴ The final network includes inter-Area trips that are more than two times longer and inter-Cluster trips that are almost three times longer than the inter-Area and inter-Cluster trips in the actual (adjusted) FY 2020 inter-SCF network, on average.

¹⁹⁵ Response to POIR No. 2, question 1.b.; Docket No. N2021-1 Tr. 1/194. The Commission notes that it was the combined FCM and FCPS volumes that constituted sufficient volume to warrant adding long-distance transportation in the modeled network.

possible scenarios that could lead to volume declines on long-distance surface lanes and volumes being routed via the air network.

One scenario could involve continued decrease in FCM letter- and flat-shaped volumes and continued increase in FCPS package-shaped volumes, as anticipated by the Postal Service. Docket No. N2021-1 USPS-T-1 at 19-21. If these trends are not equally distributed across the network, the revisions to transportation modes may be product- and lane-specific. This would potentially lead to new inefficiencies associated with low-volume lanes.

An additional scenario could involve changes to mailers' behavior in an attempt to ameliorate the impact of concurrent price increases and diminished service standards. This scenario could involve FCM and FCPS volumes traversing the postal network over reduced distances due to mailers entering their mail closer to destination.

The two examples described above highlight the possibility of new inefficiencies as the mailing system changes. Consequently, the transportation network will need to adapt to changes in mailer behavior if the Postal Service pursues its stated goal to use contracted surface transportation more efficiently. See Response to POIR No. 11, question 2.a.

The Postal Service mitigates operational issues, such as those imposed by current or future network inefficiencies, by relying on costly, exceptional service transportation.¹⁹⁶ In Docket No. N2021-1, the Postal Service explained that while it hoped to start capturing savings by eliminating expensive exceptional service

¹⁹⁶ Exceptional service is short-term transportation, scheduled on an as-needed basis. Exceptional transportation includes extra trips (trips scheduled to move volumes that failed to be loaded on planned transportation), late trips (these include expenses associated with delaying scheduled transportation, such as contracted driver's time, overtime to work late arriving mail; these arise due to volumes not being processed timely or due to dock operations issues), and cancelled trips (costs to run trips not performed due to no mail available for transport). The current cost per mile for an extra trip ranges from \$2.70 to \$7.49. Docket No. N2021-1 Tr. 1/171. Regularly scheduled surface transportation costs in the transportation analysis were evaluated at \$2.50 per mile. USPS-T-1 at 19 n.16. As for expenses associated with late and cancelled trips, the Postal Service states that no system tracks these. Docket No. N2021-1 Tr. 1/173.

transportation, the ability to do so would depend on the ability of regularly scheduled transportation to adjust departure time and to have sufficient capacity to accommodate more volume. Docket No. N2021-1 Tr. 1/212. The Commission reiterates its concern that the projected trip frequency for the efficiently routed modeled network may be inadequate. Should the modeled routings and trip frequencies prove unrealistic, once implemented, the Postal Service will be forced to continue relying on expensive exceptional transportation to move volumes outside the operating plan window.

c. Future Transportation Network Improvements and Difficulty Assessing Modeled Outcomes

The Postal Service plans to implement the proposed changes to service standards “on or after October 1, 2021.” Response to POIR No. 12, question 1. As for the modeled changes to the transportation network, the Postal Service alludes to three implementation stages. *Id.* First, the Postal Service describes immediate changes to the surface network to support the 4.8 percent of FCPS volumes shifting from the current 3-day to the proposed 2-day service standard. *Id.* For the remaining changes to the transportation network, the Postal Service refers to the before-peak and the after-peak season implementation stages, with the after-peak season period lasting through FY 2022. *Id.*

However, the Postal Service states that the surface network will continue to evolve after the service standard changes are implemented, adding that additional future changes are currently being evaluated. Response to APWU/USPS-T1-6.a. These future changes are associated with the planned consolidation of the NDC-to-NDC network and the fully established coast-to-coast First-Class surface network and will include different trip structure.¹⁹⁷ Different trip structure will likely be associated with

¹⁹⁷ The Postal Service alludes to origin STCs, destination STCs, and central STCs. See Response to APWU/USPS-T1-6.a.

a shift toward shape-based mail processing operations¹⁹⁸ and with the assumed ability to support current NDC products. The transportation requirements placed on the surface network under such conditions would increase due to: an increase in volume and change in product mix; added complexity of processing, docking, and transportation operations; and increases in touch points and chances for errors.

It is not clear how HCR contractual obligations will accommodate such a continually evolving surface network, with changing trip structures and increasing complexity, during the years leading up to the consolidation of the coast-to-coast First-Class network and the inter-NDC network.¹⁹⁹ The Postal Service also fails to project the length of this transition period²⁰⁰ and what changes, other than those modeled in the instant proceeding, it will involve. An evolving surface transportation network may render the modeling results analyzed in this proceeding of temporary relevance and limited utility.

The OIG cautioned that an understanding of what truly drives transportation costs, especially relevant for the modeled inter-SCF network, is key to containing those costs in the future. OIG Report No. RARC-WP-19-002 at 16. The Commission emphasizes that the Postal Service's analysis does not provide an in-depth discussion of what drives inter-SCF transportation costs, how such factors were incorporated into its proposal to change FCM and FCPS service standards, and how the proposed service standard changes will address these factors.

¹⁹⁸ This appears to contemplate letter and flat products processed at P&DCs, and packages processed at RDCs. See USPS-T1 at 4.

¹⁹⁹ The Postal Service states that "[a]dditional modeling will be initiated later as the planning around the NDC to RDC develops." Response to POIR No. 4, question 16.

²⁰⁰ The Postal Service states that the timeline for transitioning from NDCs to RDCs is in development, while the timeline for consolidation of the two networks has not yet been established. See PR/USPS-T1-9.a.-9.b.

The Postal Service provided the modeling results to the Commission with a caveat that they are not final and are subject to refinements. The modeled network did not account for the actual network's complexities and created routings using only time and distance constraints.²⁰¹ The modeled network disregarded processing and delivery operations,²⁰² excluded certain transportation from modeling,²⁰³ and included other issues described in this section.

Such limitations were not imposed only on the modeled network scenarios under the proposed service standards but also were incorporated into what should have represented the current inter-SCF network to the extent possible. Consequently, the Commission considers the modeled results, achieved by implementing service standard changes to a non-existent and unachievable baseline network, of limited use.

More importantly, considering the limited time available to the Commission to analyze the Postal Service's proposal, the Postal Service did not provide relevant data that would best facilitate timely review of such complex changes. As discussed previously, the modeling results data filed for Commission's review include OD Pairs and volumes, as well as the current and the proposed service standards. The data filed by the Postal Service reveal no information on routings, trips per modeled routings,

²⁰¹ Docket No. N2021-1 Tr. 1/183, 374, 444. To determine cost-effectiveness for the routings created exclusively for air OD Pairs, during the model's second iteration, the change from air to surface method was determined based on cost. Docket No. N2021-1 Tr. 1/383.

²⁰² The success of the transportation system depends on the success of the mail processing and delivery system. See United States Postal Service, Office of Inspector General, Report No. 20-144-R20, Transportation Network Optimization and Service Performance, June 5, 2020, at 5, available at <https://www.uspsaig.gov/sites/default/files/document-library-files/2020/20-144-R20.pdf> (OIG Report No. 20-144-R20).

²⁰³ As described earlier, the efficiencies achieved in the modeled baseline and the final networks include significant reduction in network trips. See Figure VII-4. The large trip reduction might result in part from the Postal Service's determination to exclude certain transportation from the model, on the basis of it being outside of the scope. However, in the highly inter-connected transportation network, most transportation is "within scope." The Commission considers only the transportation that cannot be scheduled in advance, since the need for it arises in response to unanticipated disruptions to processing or transportation network operations, an outside-the-scope transportation, for modeling purposes such as those that are the subject of the instant proceeding. For the purpose of the instant proceeding, this would include exceptional and emergency transportation.

volume pairings, transit time adjustments for added trip stops, volume transfers at aggregation sites or STCs, breaks required by the DOT for long-distance trips, and other modeling details. The Postal Service did not map current network routings to the corresponding OD Pair data. The Postal Service also did not identify existing issues that drive current inefficiencies nor highlight how these would be addressed with the implementation of the proposed changes.

The actual network has the potential to be a more reasonable point of reference to evaluate projected trips and mileages and to assess changes to the inter-SCF network, including transportation cost changes, after implementation. However, the different values for the daily trips and mileages included in the actual network provided by the Postal Service in separate filings further highlight the difficulty with assessing projected results and tracking them throughout implementation. Response to POIR No. 4, question 15.

3. Transportation Modeling Conclusion

The Commission reiterates its concerns with the transportation modeling discussed at length in the Docket No. N2021-1 Advisory Opinion. There, the Commission found that the Postal Service had not effectively demonstrated that the baseline model reflected the current operational reality, which impeded the Postal Service's ability to accurately calculate cost savings from the potential new surface transportation network. Docket No. N2021-1 Advisory Opinion at 145. The Commission noted that instead of providing a detailed plan for actual surface transportation routes, the Postal Service provided a directional model. *Id.* at 145-46.

In Docket No. N2021-2, the Postal Service has again failed to demonstrate that it has a detailed plan to implement an efficient and reliable surface transportation network, which is a necessary condition for achieving operational efficiency. In addition, the Postal Service discussed an additional initiative that will require extensive modeling and planning for implementation—the NDC redesign—but did not include it in its

transportation modeling for this docket. As such, the Commission finds that the projected cost savings from the Postal Service's transportation models are of limited utility.

A major component of the Postal Service's plan is aggregation of FCPS and FCM volumes on surface transportation. The data provided by the Postal Service show that the majority of FCPS and FCM volumes are processed at separate origin facilities. The Postal Service will have to pair FCM and FCPS volumes at origin aggregation sites or at STCs in order to put this mail on the same trucks. The Commission notes that the modeling provided by the Postal Service was not designed to capture the complexity of this mail aggregation operation.

As discussed above, the operational changes planned for STCs are a discrete and important aspect of this proposal, and a major operational change from the status quo that has not been stress-tested. If the Postal Service determines to implement its proposal, the Commission recommends that the Postal Service test the expanded STC operations before making the FCM and FCPS changes to ensure that this aspect will not be an operational hurdle that could jeopardize the success of the proposed operational changes.

F. Customer Satisfaction Analysis

1. Overview

The Postal Service claims that the proposed service standard changes for FCPS will have no net impact on FCPS-Commercial and FCPS-Retail volumes due to competitive pricing and improved reliability in meeting service expectations. Revised USPS-T-3 at 8-9. Additionally, witness Foti suggests that by improving service reliability through the proposed service standard changes for FCPS, the Postal Service may gain market share in this consistently growing business segment. *Id.* at 5.

2. Commission Analysis

Using witness testimony and library references, the Commission considered the competitive marketplace in which the FCPS products are offered. The Commission also evaluated whether the market research provided by the Postal Service demonstrates that FCPS customers in general value reliability over speed of service and whether this research sheds light upon the effects of the proposal on customers that are impacted. Finally, the Commission evaluated the Postal Service's communication strategy and the manner in which it has received and responded to feedback from stakeholders and the general public.

a. Competitive Landscape

The Postal Service offers three lightweight, less-than-1-pound shipping offerings: FCPS-Retail, FCPS-Commercial, and Parcel Select Lightweight (PSLW). Revised USPS-T-3 at 3. FCPS-Retail services are available at Post Offices to retail customers that wish to ship packages weighing less than 13 ounces. *Id.* FCPS-Commercial services are available to commercial and online customers shipping packages weighing less than 16 ounces. *Id.* Retail services are oriented towards consumers as they often include window transactions and on-average are 30 percent heavier and travel longer distances. Response to POIR No. 7, question 5. The FCPS-Commercial product is oriented towards more sophisticated shippers that can weigh and print their own postage labels, and is used by a wide variety of customers, including small businesses and individuals. The Postal Service will assess a fee upon customers unless shippers' FCPS items comply with the Intelligent Mail package barcode (IMpb) requirements.²⁰⁴ For this reason, the Postal Service designates several communication channels to

²⁰⁴ See, e.g., United States Postal Service, Notice 123 (Price List), effective August 29, 2021, available at https://pe.usps.com/text/dmm300/Notice123.htm#_c037 (Postal Service Price List) (listing fee for FCPS Commercial-Parcels that are not compliant with IMpb); United States Postal Service, *Postal Pro: IMpb Fact Sheet*, January 25, 2021, at 1, available at <https://postalpro.usps.com/shipping/impb/impbfactsheet> (same).

address the needs of these larger customers. See August 12 Response to POIR No. 11, question 17. While the two FCPS offerings are end-to-end services, the PSLW offering is primarily designed for large- and medium-sized shippers that can enter their lightweight packages into the postal network close to their ultimate destination but are looking for a last-mile delivery solution. Revised USPS-T-3 at 4. The Postal Service also offers the Priority Mail product for shipping packages at retail locations. The Postal Service notes that this product is more expensive and will provide a “faster delivery time” than FCPS-Retail after the proposed service standard change.²⁰⁵

The Postal Service and its competitors saw large volume growth in package demand due to the pandemic. Comparing FY 2020 to FY 2019, the Postal Service experienced an 18.8 percent increase in total volume and a 25.3 percent increase in total revenue for its Shipping and Packages category.²⁰⁶ UPS reported 13.1 percent growth in its total average daily package volume and 15.1 percent growth in total revenue from Calendar Year (CY) 2019 to CY 2020 in its U.S. Domestic Package Operations, as well as a 0.9 percent increase in average revenue per package.²⁰⁷ Similarly, FedEx saw 23 percent growth in its total average daily package volume and 59 percent growth in operating income from FY 2020 to FY 2021 for its FedEx Ground

²⁰⁵ Revised USPS-T-3 at 8. Priority Mail products only will provide a faster delivery time if the proposed service standard change is enacted. Currently, the shipping time that the Postal Service advertises for both Priority Mail and FCPS is 1 to 3 days. See, e.g., United States Postal Service, Mail & Shipping Services, available at <https://www.usps.com/ship/mail-shipping-services.htm> (noting shipping times for its various products).

²⁰⁶ See Postal Service FY 2020 Form 10-K at 27. For purposes of Postal Service reporting, FY 2020 covers October 1, 2019 through September 30, 2020; FY 2019 covers October 1, 2018 through September 30, 2019. See *id.* at 2.

²⁰⁷ See United Parcel Service, Inc., 2020 Report on Form 10-K, February 22, 2021, at 28, available at <https://www.sec.gov/ix?doc=/Archives/edgar/data/0001090727/000109072721000013/ups-20201231.htm> (UPS CY 2020 Form 10-K). For purposes of UPS reporting, CY 2020 covers January 1, 2020 through December 31, 2020; CY 2019 covers January 1, 2019 through December 31, 2019. See, e.g., *id.* at 21.

Segment, as well as a 9 percent increase in revenue per package.²⁰⁸ All three of these organizations attribute the significant growth in their revenues and volumes in part to the changing consumer preference for e-commerce, which was spurred by the pandemic.²⁰⁹

Historically, FCPS-Retail and FCPS-Commercial have demonstrated consistent volume growth. For example, the Postal Service noted that “FCPS [Commercial and Retail] volumes have increased by 10.6 percent in FY 2018, 9.2 percent in FY 2019, and 32.2 percent in FY 2020.” Revised USPS-T-3 at 5. Moreover, “[d]uring the pandemic, the package market has experienced significant e-commerce growth due to changes in consumer behavior and expectations.” *Id.* at 4. Consequently, the Postal Service projects modest growth in both FCPS-Retail and FCPS-Commercial volumes driven by “consistent, reliable service and price competitiveness.”²¹⁰

While the FCPS-Retail and FCPS-Commercial segments have grown consistently in the past, the Postal Service projects that package markets are tightening due to the dissipation of COVID-19-related volume surges, increased competition, and increased prices. See Postal Service FY 2021 IFP at 3-4. PSLW volumes are projected to decline due “primarily to increased competition and previously announced insourcing strategies by large users of Parcel Select.” *Id.* at 4. Overall, package volumes are expected to decline by 1.4 percent from 7.3 to 7.2 billion pieces as the surge in volume generated by the COVID-19 pandemic is anticipated to dissipate in 2021, as well as due to “increased competition and price increases.” *Id.* While the Postal Service expects the “new normal” of customer reliance on the safety and

²⁰⁸ See FedEx Corporation, 2021 Report on Form 10-K, July 19, 2021, at 58, available at https://www.sec.gov/ix?doc=/Archives/edgar/data/1048911/000156459021037031/fdx-10k_20210531.htm (FedEx FY 2021 Form 10-K). For purposes of FedEx reporting, FY 2021 covers June 1, 2020 through May 31, 2021; FY 2020 covers June 1, 2019 through May 31, 2020. See *id.* at 4.

²⁰⁹ See Postal Service FY 2020 Form 10-K at 27; UPS CY 2020 Form 10-K at 29; FedEx FY 2021 Form 10-K at 58.

²¹⁰ United States Postal Service, Integrated Financial Plan, Fiscal Year 2021, November 24, 2020, at 4, available at <https://www.prc.gov/docs/115/115156/FY2021%20IFP%20FINAL.pdf> (Postal Service FY 2021 IFP).

convenience of e-commerce due to the pandemic to “sustain package volumes at elevated levels relative to prior-year trends,” the market environment of increased competition could dampen the Postal Service’s ability to maintain current FCPS-Commercial and FCPS-Retail volumes after the service standard change. See Revised USPS-T-3 at 4. However, the Postal Service is confident in its competitive positioning in its end-to-end FCPS-Retail and FCPS-Commercial products due to its competitive pricing and reliable service.

The market for parcels has seen tremendous growth due to a shift in consumer preferences towards e-commerce due to the pandemic. The Postal Service does not believe that its package volumes will return to pre-pandemic levels. While large-sized customers have begun diverting some volume from the postal network and aggressively pricing their products to fill their own networks, the shippers that use the end-to-end FCPS service appear to be satisfied with its offerings and pricing. The Postal Service believes that the proposed service standard change will reinforce the value of FCPS as a reliable choice for end-to-end shippers.

b. Expected Impact of the Proposed Changes on Customers

The Postal Service retained the Colography Group to conduct primary survey research titled the First-Class Package Service Transit Commitment Survey (FTC Survey) to evaluate the impact of the proposed changes to FCPS service standards on current users of FCPS-Commercial services. Revised USPS-T-3 at 6-7. The Commission commends the Postal Service’s goal to directly survey populations affected by the proposed FCPS service standard change. However, issues exist relating to the representativeness of the survey for commercial users. In addition, the Postal Service did not specifically survey other populations of FCPS users and stakeholders such as online marketplaces, recipients of either FCPS-Commercial or FCPS-Retail, and rural shippers or recipients about their views on this proposal. See Response to POIR No. 11, questions 13-15. The Commission understands that because the user base of FCPS is diverse, developing a survey that is fully representative is difficult.

The survey compiles results from 458 respondents that currently use FCPS-Commercial from samples of the Colography Group's CY 2020 National Survey of U.S. Expedited Cargo and current Postal Service First-Class shippers. Revised USPS-T-3 at 7. A sample of Postal Service FCPS shippers was used to supplement the study. *Id.* The survey stratification is designed to encompass FCPS shippers across industrial divisions and average daily shipping frequency. *Id.*

FTC Survey results show that the majority of the sampled FCPS-Commercial shippers stated that they would maintain their volumes with these proposed changes, assuming that the Postal Service could reach its 95 percent on-time service performance targets. *Id.* at 7-8. The survey also indicates that the impact on commercial volumes would be "relatively insignificant." *Id.* at 8. The Postal Service further suggests that the FTC Survey's estimates may be conservative due to additional opportunities to capture market share through enhanced reliability due to the service standard. *Id.* To support this claim, it references external market research, which shows that the most important driver of satisfaction for its shipping customers is reliability. *Id.* at 5. The FTC Survey also highlights the fact that FCPS-Commercial respondents most frequently cited price as the primary reason they use FCPS. *Id.* at 7. The Postal Service extrapolates this finding to FCPS-Retail, and it claims that it will be able to maintain current FCPS-Retail volumes given its competitive pricing, as well as convenience of access and improved reliability. *Id.* at 7-8.

The Commission commends the Postal Service for retaining a third-party expert to conduct the FTC Survey and for its efforts to include meaningful portions of its customer base via directly sampling those shippers that will be affected by the proposed service standard changes. In addition, the Commission acknowledges that the FTC Survey was stratified to encompass FCPS customers of various industries and sizes. Small- and medium-sized businesses are among the stakeholders that will be affected by the proposed service standard changes. The FTC Survey attempted to include some small- and medium-sized businesses in its scope by designing its survey

stratification to encompass FCPS shippers with different average daily shipping frequencies. *Id.* at 7. By including respondents with shipping frequencies of fewer than 20 pieces per day and 20 to 49 pieces per day over a variety of industries, the Postal Service captured a sample of small- and medium-sized business responses to the proposal. See Response to POIR No. 12, question 7. Specifically, 56 percent of responses to the FTC Survey reflect the impact on businesses that ship fewer than 50 parcels per day. *Id.* question 8. The survey also captured customers from diverse industries through its stratification. For example, 68 of the 458 respondents constituted pharmaceutical customers, including small-, medium-, and large-sized companies. *Id.* questions 7.d.-7.f.

While the Commission recognizes the FTC Survey's representation of various types of shippers, including small- and medium-sized businesses and pharmaceutical companies, it also identifies several technical areas of concern relating to the survey. First, the Postal Service notes that the survey sample was configured using sources from the Colography Group's CY 2020 National Survey of U.S. Expedited Cargo and supplemented by a sample of Postal Service First-Class shippers; but the Postal Service does not provide information pertaining to the methodology by which these sources were combined, why they were combined, and whether or not there may have been selection bias in the participants chosen for the survey. See Revised USPS-T-3 at 7. Second, with respect to the potential representativeness and external validity of the FTC Survey, the volume attributed to the FTC Survey responses comprised a small proportion of measured FY 2020 FCPS-Commercial volume, yet it is applied to estimate the volume impact for the entirety of the segment.²¹¹ Third, it is unknown even to the Postal Service whether the majority of its top 10 FCPS-Commercial customers by

²¹¹ See Library Reference USPS-LR-N2021-2/NP9, July 15, 2021, file "FCPS POIR No.3_Item 1b Sample Volume (client).xlsx," cell B2 and file "FTC Survey.N2021-2-NP3.FINAL_Revised.ppt" (Revised FTC Survey), slide 9.

volume were represented in the FTC Survey in any capacity.²¹² For the few top 10 customers that were directly surveyed, responses were only received for a small proportion of accounts. See Library Reference USPS-LR-N2021-2/NP18, Non-Public Response to POIR No. 8, question 5.b. On the other hand, while the survey response rate for its largest customers is low, the majority of all respondents completed the question concerning how their use of FCPS would change in response to the proposal. See Library Reference USPS-LR-N2021-2/NP9, Revised FTC Survey, slides 5, 9. Putting the technical issues of the survey aside, conceptually, the FTC Survey cannot accurately measure the volume impact of the proposed service standard changes because it only considers the impact on shippers (rather than recipients) of FCPS and only surveyed FCPS-Commercial customers and did not sample any FCPS-Retail customers. See August 12 Response to POIR No. 11, questions 13.b., 14.a. The Commission recognizes that the vast majority of FCPS pieces are FCPS-Commercial pieces and only a small percent falls under the FCPS-Retail category. See *id.* question 14.b.ii.

Another shortcoming of the FTC Survey is that it ignores the recipient side of the volume demand. See *id.* question 13.b. The FTC Survey poses the question to commercial shippers whether they would change their use of FCPS after the proposed service standard changes. See Revised USPS-T-3 at 8. However, another important driver of shippers' decisions to use FCPS is the preference of the recipient. See August 12 Response to POIR No. 11, question 13.b.ii. Specifically, the FTC Survey shows that 37 percent of respondents indicated that "customer-driven decision" (*i.e.*, recipients) was the primary reason for using FCPS, making it the second most determining factor for FCPS use after price.²¹³ It makes sense that recipients in many cases will drive the choice of shipping because two of the Postal Service's main customer segments for

²¹² See Library Reference USPS-LR-N2021-2/NP18, August 5, 2021, "NP18.Preface.Foti.NP.Responses.POIR.8.pdf" (Non-Public Response to POIR No. 8), question 5.b.

²¹³ See August 12 Response to POIR No. 11, question 13; Revised USPS-T-3 at 7; *see also* Library Reference USPS-LR-N2021-2/NP9, Revised FTC Survey, slide 11.

FCPS-Commercial are pharmaceutical companies and online marketplaces. Revised USPS-T-3 at 6. These customer segments have an end-customer (recipient) that in many cases can indicate directly to the business shipper the desired type of shipment; for instance, the business fulfilling the order may present options for speed of delivery (along with the corresponding pricing) to the recipient at the time of making the transaction. See August 12 Response to POIR No. 11, questions 13.b.ii., 13.e.

Package recipients care about the reliability and speed of service they receive from the Postal Service.²¹⁴ The downgraded service standards proposed by the Postal Service may cause some recipients to value FCPS less and substitute other shipping services, whether they be Priority Mail or those offered by a competitor. On the other hand, the opposite result—that recipients could value the increased reliability and lower price of FCPS and choose it more often—may occur as well. The Postal Service insists that shippers are “well-attuned to the needs and preferences of their end-customers,” evidenced by the fact that a significant number of the respondents cited “customer-driven decision” as their primary reason for using FCPS in the survey. August 12 Response to POIR No. 11, question 13.e. While it is possible that the commercial shippers that took part in the FTC Survey may have accounted to a limited extent for the change in preferences of their recipients, it is not clear that survey respondents have foresight into their end-customers’ preferences in the context of this specific proposed service standard change. For example, the Postal Service may consider itself well-attuned to the needs and preferences of its customers, but it nevertheless felt it necessary to conduct the FTC Study to gauge the impact of the proposed service standard change on its customers. Similarly, the Commission expects that many of the shippers would require additional time and information than what was provided to complete the FTC Study survey question to gauge end-customer reactions. Therefore,

²¹⁴ See Docket No. N2021-1, Advisory Opinion at 146-55. In the Docket No. N2021-1 Advisory Opinion, the Commission discussed the top drivers of customer satisfaction for mail according to the Postal Service. Speed of service and reliable mail delivery were top five drivers of satisfaction from FY 2017 through FY 2021. *Id.* at 148.

the Commission encourages the Postal Service to consider methods to evaluate the impact of the proposal on recipients, as they will influence volumes indirectly through their preferred shipping options.

The Postal Service counters that FCPS-Commercial shippers are “the most relevant source of information” because they “make the final decision on which product or service to use for a given shipment.”²¹⁵ It suggests that many other factors, such as “the size and contents of a shipment, the cost of shipping services, recipient preferences, ease of access, and other factors” must be balanced by the shippers in determining their shipping needs.” August 12 Response to POIR No. 11, question 13.d. Notwithstanding these other listed factors, and as stated above, the FTC Survey demonstrated that recipient preference is among the top determining factors for many shippers when choosing FCPS. The Postal Service also suggests that “[i]n many cases, recipients are not aware that they are utilizing FCPS services to receive their shipments.” *Id.* Although 37 percent of shippers noted that recipient preferences were the *primary* determinant for choosing FCPS, a larger percentage likely consider recipient preference for FCPS an important secondary or tertiary factor for choosing FCPS. The Commission maintains that recipients are a relevant source of information, which the Postal Service should have and should now consider when determining the impact of the proposal on volumes and customer satisfaction.

On behalf of FCPS recipients, particularly with respect to items sent for medical purposes, the participants in this docket have raised concerns. The States and Cities express concerns regarding diminishing the speed of delivery for highly specialized medications that may not be locally available, medications that may be sensitive to temperature changes and/or require refrigeration, medications for individuals whose incomes may limit their ability to pay more for a faster delivery service, medications that would be subject to the extended drive time ranges, and medications for individuals at a

²¹⁵ August 12, 2021 Response to POIR No. 11, question 13.b.ii.; see Library Reference USPS-LR-N2021-2/NP8, July 15, 2021, file “NP8.Preface.Response.Foti.PR Interrogs.pdf,” question 4.b.

higher risk for COVID-19 (such as older and immunocompromised individuals) who may rely on the Postal Service to receive their medications and minimize their exposure to COVID-19. See States and Cities Statement at 10-11. NALC, acting in its capacity as administrator of the NALC Health Benefit Plan, contends that its members depend on the prompt delivery of prescription medications. NALC Statement at 1-2. Multiple individuals emphasize their reliance on the Postal Service's speed of delivery to receive items for medical purposes.²¹⁶ Given these statements, the Commission advises that the Postal Service, in addition to its ongoing outreach to pharmaceutical companies, include in its outreach the owners and operators of mail-order pharmacies (such as pharmacy benefits managers representing health plan sponsors). Engaging in such outreach would better equip these entities to understand, plan, and adjust their practices and customer communications to account for the Postal Service's proposed changes (e.g., increase the lead-time to allow for additional day(s) to ship affected FCPS items, substitute a different product where faster delivery is needed, and educate end-recipients regarding these circumstances). Overall, such action could thereby facilitate a smoother experience for the end-recipients with regard to the Postal Service's proposed changes.

Relatedly, the Commission believes that the impact of the proposed service standard change has been understudied for online marketplaces. The Postal Service identifies online marketplaces and pharmaceutical companies as two of its largest customer segments for FCPS. Revised USPS-T-3 at 3. According to witness Foti: "Marketplaces make multiple products available to shoppers by consolidating merchants on their platform...[and] are a key conduit for small and medium-sized businesses to access [the Postal Service's] FCPS product." *Id.* Pharmaceutical companies are identified as "another key customer segment that use[s] FCPS to ship packages (generally prescriptions) weighing less than a pound." *Id.*

²¹⁶ See, e.g., Taussig Statement; Fellows Statement; Bruce Statement; Ladd Statement; Wolfe Statement; Hamersley Statement.

Despite identifying both online marketplaces and pharmaceutical companies as “key” customer segments for the FCPS product, the Postal Service only provides segmented impact analyses on the impact of the proposal for pharmaceutical companies and not for marketplaces. Notwithstanding the importance of marketplaces,²¹⁷ the Postal Service believes that “modeling the impact of the proposed changes to FCPS service standards on this market segment individually would not yield insightful, helpful market information given parcel market dynamics. Whether, and to what degree, the proposed changes impact each individual shipper requires an intensive inquiry unique to each shipper.” Response to POIR No. 7, question 3; see August 12 Response to POIR No. 11, question 15. The Commission commends the Postal Service for its decision to “engage in conversations with several key customers and manage[] accounts on the proposed changes.” August 12 Response to POIR No. 11, question 15. In a similar vein, while the Commission appreciates that it may be unnecessary to model the impact on the marketplace segment individually, given that marketplaces are a key customer segment and portal for small- and medium-sized businesses, the Postal Service would benefit from a better understanding of how this customer segment will be affected by the proposed service standard change before implementing such a change.

Another shortcoming of the Postal Service’s methodology for understanding the impact of the proposal is that it focuses exclusively on commercial shippers and omits retail consumers. See *id.* question 14.a. The FTC Survey did not sample FCPS-Retail customers, yet the Postal Service attempts to extrapolate findings for FCPS-Commercial customers to claim that FCPS-Retail volumes will be unaffected by the service standard change given its competitive pricing, as well as its convenience and improved reliability. Revised USPS-T-3 at 8. Namely, the FTC Survey found that respondents most frequently cited price as the reason they use FCPS, and the Postal

²¹⁷ See Library Reference USPS-LR-N2021-2/NP17, July 29, 2021, “NP17.Preface.Foti.NP.Responses.POIR7.pdf,” at 2.

Service uses this finding to imply that the competitive pricing in the FCPS-Retail segment will allow the Postal Service to maintain its FCPS-Retail volume. *See id.* at 7-8. There is no evidence on this record to controvert the Postal Service's assertion that FCPS prices remain highly competitive. *See id.* at 7. Additionally, it may be true that price is the reason most retail shippers choose FCPS. *See id.* at 7-8. However, this conclusion is not supported by the results in the FTC Survey, because the FTC Survey only sampled commercial shippers. *See* August 12 Response to POIR No. 11, question 14.a. The Postal Service makes a similarly unsubstantiated claim that convenience of access will allow the Postal Service to maintain its FCPS-Retail volume.²¹⁸

In terms of reliability, the Postal Service cites the USPS Market Research & Insights Q1 FY21 Brand Health Tracker – Shipping Services (BHT Shipping Survey) to assert that greater reliability due to the service standard change will improve FCPS-Retail and FCPS-Commercial shipper satisfaction and help the Postal Service maintain current FCPS-Retail and FCPS-Commercial volumes. *See* Revised USPS-T-3 at 5, 8; *see also* Response to POIR No. 8, question 3. First, the Commission notes that the BHT Shipping Survey is not focused specifically on lightweight shipping, FCPS, or the proposed changes.²¹⁹ Therefore, it is unclear how applicable the results are to the characteristics of the Postal Service's current FCPS customers. Second, according to the BHT Shipping Survey, reliability is the top driver of shipper satisfaction, while speed of delivery is third. Revised USPS-T-3 at 5; *see* SH/USPS-T3-1-5, question 1. The FTC Survey appears to present conflicting results, however, as more FCPS-Commercial shippers cite speed of delivery than on-time reliability as their reason for using FCPS.²²⁰ Library Reference USPS-LR-N2021-2/NP9, Revised FTC Survey, slide 11; *see* Library Reference USPS-LR-N2021-2/NP18,

²¹⁸ *See* Revised USPS-T-3 at 8; *see also* Response to POIR No. 8, question 3.a.; August 12 Response to POIR No. 11, question 14.b.ii.

²¹⁹ *See* Library Reference USPS-LR-N2021-2/NP4, July 6, 2021, question 1.

²²⁰ Library Reference USPS-LR-N2021-2/NP9, Revised FTC Survey, slide 11; *see* Library Reference USPS-LR-N2021-2/NP18, "NP18.Preface.Foti.NP.Responses.POIR8.pdf," at 2.

“NP18.Preface.Foti.NP.Responses.POIR8.pdf,” at 2. Thus, while informative, the BHT Shipping Survey is not particularly probative as to the proposal’s impact on satisfaction.

Furthermore, it is not clear that FCPS customers will be satisfied by the proposed service standard changes even if reliability is the top driver of shipper satisfaction. The proposed service standard change has the stated goal of increasing reliability at the cost of lowering service standards for certain portions of the FCPS product. The Postal Service states that, “[g]iven no changes other than the proposed service standard change, a service improvement ranging from 1.95 points to 5.74 points could be expected to FCPS.” Response to POIR No. 8, question 1. At the lower end, the improvement in reliability due to the proposed service standard change could be minimal, and the Postal Service’s ability to achieve its stated reliability targets with the proposed service standard change has not been clearly demonstrated. See Section V.II.C.2., *supra* (discussing the Postal Service’s ability to meet the proposed service standards in the near future). On the other hand, witness Hagenstein estimates that the proposed service downgrade for FCPS volume is upwards of 30 percent. Revised USPS-T-1 at 38. The Commission similarly discussed the Postal Service’s failure to address the tradeoff between improved reliability and slower speed of service in the case of FCM in Docket No. N2021-1 and found there was insufficient evidence to determine the proposal’s effect on customer satisfaction. See Docket No. N2021-1 Advisory Opinion at 151. Again in this proceeding, the Commission finds that there are insufficient bases to allow the Commission to definitively comment on how the proposed service standards will affect customer satisfaction for either FCPS-Commercial or FCPS-Retail customers. Additionally, the Postal Service does not present sufficient evidence to allow the Commission to ascertain whether opportunities truly exist for the Postal Service to use increased reliability to maintain or gain market share.

The Postal Service justifies its exclusion of FCPS-Retail shippers from its study by explaining that “[t]he majority [91 percent] of FCPS volume is driven by the FCPS-Commercial price category.” Revised USPS-T-3 at 5; see *also* August 12 Response to POIR No. 11, question 14. It also argues that, “[i]f FCPS-Retail customers seek a faster delivery time, they have the option of choosing our Priority Mail product, and thus able to readily substitute at one of our retail locations.”²²¹ The Commission accepts that these services may be substitutable in theory, but Priority Mail is more expensive.²²² Moreover, the substitution could pose difficulties for consumers that could be more sensitive to price changes, such as rural residents and shippers that may be older and/or have low-incomes.²²³

A review of the Postal Service’s testimony in its direct case, as well as its responses to POIR questions, indicates that the Postal Service did not present any data or analysis comparing the proposal’s impact on urban and rural customers of FCPS, such as surveying rural senders or recipients about their views. See Response to POIR No. 11, questions 13-15. Nor did the Postal Service specifically address the effects of the proposal on rural or retail customers, although it had the data to estimate the expected change in volume for FCPS that originates from, and/or is destined to, rural and urban ZIP Codes. See Response to POIR No. 7, question 1. Such data were filed by the Postal Service under seal after the issuance of POIR No. 7, question 1. The Postal Service states that “[n]o changes were implemented to the proposal based on the rural versus urban impact analysis.” Response to POIR No. 13, question 2. Instead, the Postal Service asserts that “[t]he results of the analysis did not necessitate a change” because “[t]he percent impact, both from origin and destination perspective, was very

²²¹ Revised USPS-T-3 at 8. See Library Reference USPS-LR-N2021-2/NP9 and Library Reference USPS-LR-N2021-2/NP4 at 10 for the Postal Service’s explanation regarding the substitutability of Retail services with Priority Mail services.

²²² See, e.g., Postal Service Price List (comparing the price of FCPS with Priority Mail).

²²³ These concerns are reflected in some of the participant’s filings. See States and Cities Statement at 5-6, 11-12; see *also* Bruce Statement at 1; Ladd Statement at 1; Oshatz Statement at 1.

similar, and 3-digit ZIP Code areas categorized as rural showed more volume upgrades and fewer downgrades.” *Id.* question 2.b. Additionally, as discussed below, the Postal Service also did not reach out to sample such populations to understand the impact of the proposed service standard changes and/or to discuss potential ways to address such impacts.

c. The Postal Service’s Communication Plan

Witness Hagenstein notes that the proposed service standard change would have operational impacts on retail customers and shippers. He states:

The proposed changes would impact retail and commercial customers by, in some instances, increasing the amount of time it would take to deliver a package to a recipient. Therefore, for FCPS that must be received by a certain date, shippers would sometimes have to enter the packages into the system earlier than under the previous standards. In order to mitigate any harm from this change, the Postal Service will work to inform retail customers about the service changes, so that they can set appropriate expectations for delivery times. This is discussed in the testimony of witness Foti.

Revised USPS-T-1 at 38. Witness Foti, in his testimony, did not mention any form of communication or mitigation strategies with postal and public stakeholders. The Postal Service also confirmed that it had not made any changes to the proposal in response to stakeholder feedback. August 12 Response to POIR No. 11, question 16. In a later response to a POIR question, the Postal Service explains that it “will develop a communications plan to inform both commercial and retail shippers of the proposed changes [when the Postal Service plans to implement its proposal].” August 12 Response to POIR No. 11, question 17. The Commission commends the Postal Service for planning to use a variety of portals, including Industry Alert, DMM Advisory/PC Weekly, email messaging to industry leadership, USPS Service Alerts website, PostalPro, Push messaging to Customer Care Centers, Sales and Business Service Network contacts, Retail Sales Associates, and a reprogrammed Service Delivery Calculator to inform its customers and stakeholders of the proposed service

standard change. *Id.* The Commission also encourages the Postal Service to maintain “regular communication and collaboration with related Pharmaceutical customers and field operations.” See Response to POIR No. 12, question 9.a. However, the Commission recommends that the Postal Service streamline its communication strategy and begin communicating via the described channels with customers and other stakeholders as soon as possible so that they can understand, prepare for, and respond to the FCPS service standard changes and their impact on their businesses and lives. The Postal Service’s decision to conduct the FTC Survey shows responsiveness to the needs of its FCPS-Commercial clients, but the Commission urges the Postal Service to do the same for FCPS-Retail shippers, FCPS-Retail recipients, and FCPS-Commercial recipients, each of whom influence the Postal Service’s FCPS volumes. It also would be wise for the Postal Service to consider the effects of its proposed changes on discrete segments of FCPS stakeholders and discuss potential ways to address those impacts.

3. Customer Satisfaction Conclusion

In Docket No. N2021-1, the Commission criticized the Postal Service for relying on over-generalized research on consumer preferences to predict the impact of the proposed service standard changes on customer satisfaction and volumes. See Docket No. N2021-1 Advisory Opinion at 153. The instant proposal represents an improvement over the Docket No. N2021-1 proposal because the Postal Service commissioned the FTC Survey to sample its FCPS-Commercial shipper customers in order to gauge the impact of the proposal directly. However, the FTC Survey has shortcomings, namely that it ignores how recipients will affect volume demand and omits FCPS-Retail customers. Other than the survey of FCPS-Commercial customers, the Postal Service also fails to model the specific impact of the proposal on discrete populations of stakeholders. Although other populations may make up a small proportion of total volume, their views might be masked in surveys of high-volume, commercial mailers. The Commission recognizes that it is very difficult to develop a survey that is fully

representative of a user base as diverse as the users of FCPS. However, it appears that the FTC Survey may not be fully representative. Going forward, the Commission recommends that Postal Service monitor the impact of the proposal on customer demand and satisfaction and consider ways to address the potential impacts on discrete groups of stakeholders, such as recipients, pharmaceutical companies, marketplaces, rural residents, shippers that are older and/or low-income, and small businesses.

G. Statutory Considerations

1. Statutory Policies of Title 39, United States Code

The Commission reviews the proposed changes to FCPS service standards for consistency with the 39 U.S.C. § 3661(a), setting forth the requirement for the Postal Service to “develop and promote adequate and efficient postal services.” See 39 U.S.C. § 3661(a); *see also id.* § 403(a). The Commission also reviews the arguments presented by the parties concerning whether the proposed changes comport with the postal policies set forth in 39 U.S.C. § 101(a)-(b), (e)-(f). The relevant language in section 101 provides:

(a) The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people.

(b) The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities.

....
(e) In determining all policies for postal services, the Postal Service shall give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.

(f) In selecting modes of transportation, the Postal Service shall give highest consideration to the prompt and economical delivery of all mail and shall make a fair and equitable distribution of mail business to carriers providing similar modes of transportation services to the Postal Service. Modern methods of transporting mail by containerization and programs designed to achieve overnight transportation to the destination of important letter mail to all parts of the Nation shall be a primary goal of postal operations.

39 U.S.C. § 101(a)-(b), (e)-(f).

Unlike the service standard changes proposed in Docket No. N2021-1 for Market Dominant FCM and end-to-end Periodicals, the proposed changes in the instant proceeding pertain to FCPS, which is a Competitive product. Consequently, certain statutory provisions that apply to Market Dominant FCM and end-to-end Periodicals do not apply to FCPS. Among them are: the objectives and factors governing the Postal Service's revision of its service standards for Market Dominant products set forth in 39 U.S.C. § 3691(b) and (c); the requirement that the Postal Service publish revised service standards for Market Dominant products in the Code of Federal Regulations pursuant to 39 U.S.C. § 3691(a); and the requirement that the Postal Service measure and report quality of service for each Market Dominant product pursuant to 39 U.S.C. § 3652(a)(2).

2. Parties' Positions

The Postal Service asserts that "increasing volume confirms that customers already consider FCPS to be more than adequate under the current standards." Postal Service Brief at 22. Additionally, the Postal Service contends that the improved reliability, which it claims will result from its proposal, added to competitive pricing, will lead to additional FCPS volume increases. *Id.* The Postal Service states that its

proposed changes are “likely to improve the already more than adequate FCPS in accordance with the policies of the title 39 of the United States Code.” *Id.*

The Postal Service maintains that it gave the highest consideration to the balance of prompt and economical mail delivery as required by 39 U.S.C. § 101(f). *Id.* at 19. It states that “the proposed service standard changes will promote more reliable and economical FCPS transportation” by shifting air transportation routes onto more reliable surface transportation, and by achieving annual cost savings of \$42 million. *Id.* The Postal Service also contends that “for package transportation as opposed to letter mail, ‘prompt’ does not mean as fast as possible.” *Id.* at 20. It argues that Congress made an explicit distinction between the requirement for “the most expeditious collection, transportation, and delivery *of important letter mail*” in section 101(e) and the requirement to provide for “prompt and economical delivery” of all other mail in section 101(f). *Id.* (emphasis in original) (quoting 39 U.S.C. § 101(e)). It goes on to state that:

Given the distinct application of “most expeditious” exclusively to important letter mail, “prompt” as applied to package mail must mean something less. Moreover, with respect to the required and necessary balance between speed and cost, the Postal Service offers a range of package products for customers to choose from. FCPS provides a particular balance, while other package products exist for those who would want faster delivery.

Id. at 20-21.

The States and Cities contend that the Postal Service’s proposal violates sections 101(a) and (b) due to the disproportionate impact the lengthened service standards would have on rural communities and veterans. States and Cities Statement at 12. With respect to veterans, the States and Cities assert that the U.S. Department of Veterans Affairs fulfills 80 percent of prescriptions via mail, with some 90 percent of those prescriptions shipped through the Postal Service. *Id.* It maintains that the proposed changes “will require millions of veterans to adjust or pay nearly twice as much (or more) for faster alternatives—if that option is even available to them.” *Id.* As for rural communities, the States and Cities cite the APWU rebuttal testimony noting

that many large and heavily rural states will be disproportionately impacted by the service standard changes. *Id.* at 6 (citing APWU-RT-1 at 3).

The States and Cities express concern that “although the Postal Service’s modeling and financial analysis presents First-Class Mail and FCPS as moving together in [the] surface network, the Postal Service’s proposed business rules for FCPS in the contiguous United States diverge substantially from the business rules it recently finalized for First-Class Mail in the same geographic area[.]” *Id.* at 7 (internal footnotes omitted). They characterize the Postal Service’s proposal as “mov[ing] FCPS packages between 1.2 and 2.7 times farther than First-Class Mail in the same period of time.” *Id.* They assert that “prioritizing packages above First-Class Mail cannot be squared with the statutory requirement that the Postal Service ‘give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.’” *Id.* (quoting 39 U.S.C. §101(e)).

As an alternative to implementing the proposed changes, the States and Cities suggest that the Postal Service seek reimbursement from Congress for public service costs incurred by providing a maximum degree of effective and regular postal service nationwide pursuant to 39 U.S.C. § 2401(b)(1). *Id.* at 9.

The States and Cities urge the Commission to recommend the Postal Service issue a notice of proposed rulemaking and accept public comment on the proposal. *Id.* at 13-14. They also request that the Commission extend the 90-day timeline to give itself adequate time to evaluate the Postal Service’s proposed changes. *Id.* at 15-16.

3. Commission Analysis

Sections 101(a)-(b), (e)-(f) and 3661(a) require the Postal Service to consider speed, efficiency, economy, and reliability in all aspects of its operations. Therefore, the Postal Service must balance these often competing qualitative provisions. Moreover, the Postal Service’s FCPS offering competes directly with private sector firms in the market for lightweight parcels. Unlike Market Dominant products, the Postal Service’s

Competitive product prices are not capped and quality of service is subject to less regulatory oversight because market competition is expected to serve as the primary guarantor of discipline with respect to price and quality.²²⁴ As described below, the Commission does not find the proposal to be facially inconsistent with these policies.

FCPS exists within a competitive market. As proposed, delivery is expected to continue to be made in 3 days or less for FCPS items with a drive time between the OD Pairs under 32 hours. Revised USPS-T-1 at 6-8. Under the proposed changes, FCPS items with a drive time between OD Pairs exceeding 32 hours would experience a 1-day or 2-day increase in the expected days to delivery.²²⁵ The Commission finds that proposed changes are not facially inconsistent with the section 3661 requirement that the Postal Service's offering must be an adequate and efficient postal product. Should the Postal Service determine to implement the proposed changes, the Commission urges the Postal Service to carefully coordinate its implementation strategy to balance the adequacy and efficiency of FCPS. In particular, communication among and between shippers, Postal Service processing facilities, and transportation suppliers will be key to mitigating potential disruptions as the Postal Service overhauls its processing and surface transportation networks during FY 2022.

The Postal Service contends that its proposed changes strike the required balance between "prompt and economical" delivery of FCPS pursuant to section 101(f).

²²⁴ Pursuant to 39 U.S.C. § 3642(b)(1), Competitive products are by definition those products over which the Postal Service does not "exercise[] sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products." The Commission is authorized to transfer products between the Market Dominant and Competitive product lists as necessary to ensure that for those products for which the Postal Service does exercise sufficient market power, mailers are protected by the price cap and other regulatory provisions applicable to Market Dominant products. See 39 U.S.C. § 3642(a).

²²⁵ See Revised USPS-T-1 at 7-9. Specifically, FCPS items with a drive time between the OD Pairs between 32 and 50 hours would experience a 1-day increase in the expected days to delivery (from 3-day to 4-day) and FCPS items with a drive time exceeding 50 hours would experience a 2-day increase in the expected days to delivery (from 3-day to 5-day). See *id.*

The Commission has previously noted that the policy directives of section 101 “are qualitative in nature, somewhat in competition with one another, and provide high level guidance to the Postal Service.” Docket No. N2021-1 Advisory Opinion at 177. The Commission agrees that the statutory requirement of “prompt” delivery of all non-important letter mail can be distinguished from the statutory requirement for “most expeditious” delivery of important letter mail. Courts engaged in statutory interpretation generally presume that differences in language convey differences in meaning.²²⁶ However, it remains to be seen whether, in execution, the Postal Service can strike the balance of prompt and economical with the policy directives set forth in section 101. See Sections VII.C. and VII.D., *supra*, for a discussion of the Postal Service’s proposal as it relates to cost savings and transportation, respectively.

The States and Cities have alleged, although not established, that the proposal has the potential to disproportionally impact veterans and rural communities. For a discussion of undue or unreasonable discrimination against these segments of the population as it relates to pharmaceutical deliveries, see Section VII.H., *infra*. Although the Commission notes that any potential impacts are too speculative to violate section 101 prior to implementation, it urges the Postal Service to monitor the impact of the service changes on these vulnerable communities as it implements the proposal.

The States and Cities allege that the Postal Service is moving “FCPS packages between 1.2 and 2.7 times farther than First-Class Mail in the same period of time.” States and Cities Statement at 7. This allegation mischaracterizes the Postal Service’s transportation network and business rules. The Postal Service’s proposal in Docket No. N2021-1 was for Market Dominant FCM items that would require between 3 hours and 20 hours of drive time between the OD Pairs to be subject to a 3-day service standard. See Docket No. N2021-1 Request at 3-4. The Postal Service’s proposal in Docket No. N2021-2 is for FCPS items that would require between 8 hours and 32 hours of drive

²²⁶ *Henson v. Santander Consumer USA Inc.*, 137 S. Ct. 1718, 1723, 198 L. Ed. 2d 177 (2017); *Wisconsin Cent. Ltd. v. United States*, 138 S. Ct. 2067, 2071–72, 201 L. Ed. 2d 490 (2018).

time between the OD Pairs to be subject to a 3-day service standard. Revised USPS-T-1 at 6-8. This does not mean that FCPS items will travel a longer distance in the same period of time. Major factors in the business rules are the CETs for mailers to enter their items into the Postal Service's network, which starts the clock for measurement of the applicable service standard, and the Postal Service's CET at the destination facility, which defines when the item needs to arrive at the destination sectional center facility (DSCF) in order to be delivered that business day. See Revised USPS-T-1 at 6-10, 29. Both the CET for mailers to enter their items into the Postal Service's network and the CET at the DSCF are different for FCPS than for FCM. *Id.* at 29. For FCM letters and flats, the DSCF CET is 08:00 hours on the day before the scheduled delivery day; for FCPS parcels, the model uses 20:00 hours as the CET on the day before the scheduled delivery day. *Id.* The additional 12 hours incorporated into the FCPS DSCF CET allow for FCPS pieces to travel farther. This different operating window does not allow the Postal Service to transport FCPS pieces farther than FCM pieces in the same amount of time, rather, the Postal Service's different operating plans propose distinct operating windows for FCPS parcels than for FCM letters and flats. Additionally, the Cities and States do not acknowledge in their remarks that some letters remain subject to overnight delivery standards, further expediting important letter-shaped FCM pieces vis-à-vis package-shaped FCPS pieces.²²⁷ The Commission does not find merit in the Cities and States' assertion that the Postal Service's proposal violates section 101 on these grounds.

Further, the Commission will not opine on the advisability of seeking reimbursement from Congress pursuant to 39 U.S.C. § 2401(b)(1), as that course of

²²⁷ See Docket No. N2021-1 Advisory Opinion at 13, Figure IV-1 (observing that intra-SCF domestic Presort mailpieces properly accepted at the SCF before the day-zero CET remain unchanged); Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 21,675, 21,678 (Apr. 23, 2021) (to be codified at 39 C.F.R. pt. 121); Revised Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 43,941, 43,952 (Aug. 11, 2021) (codified at 39 C.F.R. § 121.1(a), effective Oct. 1, 2021).

action remains subject to the Postal Service Board of Governors' business judgment and is outside the scope of this proceeding.

The Commission also declines to recommend that the Postal Service file a notice of proposed rulemaking for the same changes proposed in this docket. Pursuant to 39 U.S.C. § 3691(a), the Postal Service must publish revised service standards for Market Dominant products in the Code of Federal Regulations;²²⁸ however, no such statutory requirement applies to Competitive products such as FCPS. In accordance with Commission rules, the Commission published in the *Federal Register* multiple notices regarding the procedural deadlines for public participation in Docket No. N2021-2.²²⁹

The States and Cities allege that the public's opportunity to participate in this proceeding has been hampered by the Postal Service's decision to file certain information under seal. However, the information filed under seal in this docket contains commercially sensitive information regarding a Competitive product for which the Postal Service has applied for non-public treatment pursuant to 39 U.S.C.

²²⁸ In order to promulgate changes to its proposed changes to the service standards for Market Dominant products codified in 39 C.F.R. part 121, the Postal Service published both a notice of proposed rulemaking and a final rule. See Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 21,675-21,680 (Apr. 23, 2021) (to be codified at 39 C.F.R. pt. 121); Revised Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 43,941-43,954 (Aug. 11, 2021) (codified at 39 C.F.R. § 121.1(a), effective Oct. 1, 2021).

²²⁹ See Service Standard Changes, 86 Fed. Reg. 29,600, June 2, 2021 (notifying the public of the Postal Service's pre-filing conference to be held online via Zoom); Service Standard Changes, 86 Fed. Reg. 33,787 (June 25, 2021) (notifying the public of the procedural schedule for Docket No. N2021-2, including the deadlines for filing notices of intervention, briefs, and statements of position); Service Standard Changes, 86 Fed. Reg. 36,788 (July 13, 2021) (notifying the public of the revised procedural schedule for Docket No. N2021-2, including the extended deadlines for filing discovery requests, briefs, and statements of position); Service Standard Changes, 86 Fed. Reg. 41,103 (July 30, 2021) (notifying the public of the modifications to the procedural schedule for Docket No. N2021-2, due to the filing of rebuttal testimony, and including extended deadlines for filing notification of intent to conduct oral cross-examination, briefs, and statements of position); Service Standard Changes, 86 Fed. Reg. 44,409 (Aug. 12, 2021) (notifying the public of procedures to administratively enter testimony and evidence).

§ 504(g)(1) and 39 C.F.R. part 3011 subpart B.²³⁰ The Commission has set forth a process for the public to request and obtain access to these non-public filings in 39 C.F.R. part 3011 subpart C and has included a template document to facilitate parties' ability to comply with the Commission's rules. See Order No. 5920 at 11-12, Attachment 2. Only one party requested and obtained access to these materials in the instant docket.²³¹ Pursuant to 39 U.S.C. § 3661(c) and 39 C.F.R. § 3020.111(d), the Commission appointed a member of the Commission staff to serve as the Public Representative in this proceeding. See Order No. 5900 at 3, 4. The Public Representative is automatically made a party to this proceeding, given access to non-public materials, and represents the interests of the general public in this proceeding. See 39 C.F.R. §§ 3010.142(a), 3011.300(a)(2); 39 U.S.C. § 505. In addition to the Public Representative's brief, the Commission has received and considered statements of position from members of the public in response to this proposal.

The States and Cities have urged the Commission to extend the procedural schedule beyond the 90-day timeline in order to sufficiently analyze the impact of the proposed changes. The Commission has already done so in Order No. 5933 in this docket. See Order No. 5933.

H. Section 403 Analysis

The Commission evaluates whether the Postal Service's proposal is consistent with 39 U.S.C. § 403(c), which prohibits "undue or unreasonable discrimination among users of the mails...." The Commission reviews these arguments and concludes that

²³⁰ The Postal Service explains that the information filed under seal contains detailed volume and cost information regarding purchased transportation; data that reveal cost, volume, weight, modes of transportation, transportation windows, service performance information for Competitive products; and market research on FCPS developed by an external firm on behalf of the Postal Service. Notice of United States Postal Service of Filing of Library References and Application for Non-Public Treatment, June 17, 2021, Postal Service Application for Non-Public Treatment, at 1, 3-6.

²³¹ Presiding Officer's Ruling Granting Access, July 6, 2021 (POR No. N2021-2/1) (granting non-public access to a representative of APWU).

while different recipients will be subject to different service standard expectations, these differences are not demonstrably “undue” or “unreasonable” on their face.

1. Standard Applicable to 39 U.S.C. § 403(c)

As set forth in 39 U.S.C. § 403(c):

(c) In providing services and in establishing classifications, rates, and fees under this title, the Postal Service shall not, except as specifically authorized in this title, make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user.

39 U.S.C. § 403(c). The Commission evaluates claims of undue or unreasonable discrimination according to a three-part test: first, a mailer or mailers (non-preferred mailer) must be offered less favorable rates or terms and conditions than another mailer(s) (preferred mailer); second, both the non-preferred mailer and the preferred mailer must be similarly situated; third, there must be no rational or legitimate basis for the Postal Service to deny the non-preferred mailer the more favorable rates or terms offered to the preferred mailer. See Order No. 718 at 28; Docket No. N2021-1 Advisory Opinion at 170.

2. Parties’ Positions

The States and Cities and APWU contend that the Postal Service’s proposed changes violate section 403(c). The States and Cities state that the service downgrades for pharmaceutical deliveries will disproportionately impact mailers in certain areas, and that such geographical disparities constitute undue or unreasonable discrimination. States and Cities Statement at 11. They assert that “[a] patient living in California or Maryland’s Eastern Shore is no differently situated than a patient living in Wyoming or Kansas, but patients living in the former areas will have to wait a day or longer than those living in the latter areas to get the same prescriptions. Patients

should not be subject to worse service standards solely by virtue of their geography.” *Id.*

APWU does not specifically refer to section 403(c) but asserts that “First-Class package service standards for packages containing pharmaceuticals pose a particular concern given the nation’s growing reliance on mail delivery of medicine and prescriptions.” APWU-RT-1 at 6. APWU goes on to state that “[d]owngrades impacting 11 to 25 percent of pharmaceutical First-Class package volume will affect central Maine, north central New Jersey, central Pennsylvania, southeastern Virginia, western and southern North Carolina, northern South Carolina, northern and southeastern Georgia, northeastern and southeastern Florida, Alabama, Mississippi, Southern Louisiana, northeastern Arkansas, western and central Tennessee, south central Kentucky, central Minnesota, western North Dakota and northwestern South Dakota.” *Id.*

The Postal Service contends that its proposal does not violate section 403(c). The Postal Service asserts that the FCPS service standards are based on drive time from origin to destination—with mail traveling farther having a longer delivery time than mail delivered closer to origin. Postal Service Brief at 23. It states that distance-based service standards applied nationwide do not facially distinguish between mailers who use the service; rather, all mailers are offered and receive the same service depending on drive time from origin to destination. *Id.* Finally, the Postal Service contends that the proposal complies with section 403(c) because “the differentiation of service standards based on drive time from origin to destination is rationally related to the Postal Service’s statutory mandate to provide adequate, efficient, reliable, and economical postal services.” *Id.* at 25.

3. Commission Analysis

The Commission discusses each part of the test applicable to section 403(c) in the following analysis.

a. Less Favorable Terms

The Postal Service acknowledges that mail requiring longer drive times will experience longer delivery times than mail with shorter surface transportation distances. Postal Service Brief at 23. Although the Postal Service maintains that distance-based criteria are facially objective, the Commission has previously found that to satisfy this prong of the test a mailer need only show a different level of service received by two mailers. Docket No. N2021-1 Advisory Opinion at 175.

The proposed changes are not expected to result in some shippers experiencing less favorable delivery terms compared to the existing service standard. For instance, a shipper sending an FCPS item where the drive time between the OD Pairs remains under 6 hours is not expected to experience a change in the expected days to delivery (2-day) at all. A shipper sending the same FCPS item but with a drive time of between 6 to 8 hours is expected to experience an improvement in the expected days to delivery (from 3-day to 2-day) under the proposal. A shipper sending the same FCPS item but with a drive time of between 8 to 32 hours is not expected to experience a change in the expected days to delivery (3-day) at all.

On the other hand, the proposed changes are expected to result in the following shippers experiencing less favorable delivery terms compared to the existing service standard. A shipper sending the same FCPS item but with a drive time of between 32 to 50 hours is expected to experience a 1-day increase in the expected days to delivery (from 3-day to 4-day). A shipper sending the same FCPS item but with a drive time exceeding 50 hours is expected to experience a 2-day increase in the expected days to delivery (from 3-day to 5-day). Based on the record in this proceeding, the Commission concludes that it would be possible for certain FCPS customers to demonstrate that the proposal would result in disparate service treatment compared to other mailers.

b. Similarly Situated

This prong of the analysis—determining whether one mailer is similarly situated to another—is a more fact-driven, nuanced, and complex inquiry than whether or not a different level of rate terms exists between two mailers or a group of mailers. Docket No. N2021-1 Advisory Opinion at 175. The determination of whether mailers are similarly situated is best determined on a case-by-case basis by a comparison of the relevant characteristics of different mailers. Order No. 718 at 45, 59.

Taking the contentions of the States and Cities and APWU at face value, the Commission observes certain pharmaceutical FCPS recipients may experience longer delivery times than others. However, the Commission cannot conclude that these groups of mailers are similarly situated. In making such a determination, the Commission considers the product used, characteristics of the mail, and other relevant similarities or differences as applicable. The hypothetical mailers in the geographical areas identified by the States and Cities and APWU may or may not be similarly situated to mailers in other parts of the country. Under the existing service standards, the Postal Service distinguishes which FCPS items travel under a different days-to-delivery service standard based on how far the shipment travels (measured from acceptance at a postal facility). Similarly, to determine which of the proposed service standards would apply, the relevant question is not where customers live, but instead how far their shipments travel within the Postal Service's network. Any determination before implementation of the proposal and analysis of its effects would be premature and necessarily speculative.

c. Rational or Legitimate Basis

As the Postal Service notes, the Commission has previously stated that the Postal Service has wide latitude in providing different levels of service to different groups of users so long as those distinctions are reasonable. Postal Service Brief at 25; Docket No. N2021-1 Advisory Opinion at 176. The Postal Service's position is that the

proposed service standard changes are rationally related to the Postal Service's statutory mandate to provide adequate, efficient, reliable, and economical postal services. The Commission has identified several areas of concern regarding the implementation of the Postal Service's proposal. At present, the Postal Service has not demonstrated that it can achieve reliability, efficiency, and economy in its service standard changes. See Sections VII.C.-VII.E., *supra*. Much depends on the quality of the Postal Service's execution of these changes, should it choose to proceed, as well as the success of deploying interdependent operational initiatives.

4. Conclusion

The Postal Service's proposed plan does not facially violate 39 U.S.C. § 403(c). Some mailers will undoubtedly experience longer delivery times as a result of the proposed changes. However, the record does not support the conclusion that these mailers are similarly situated to those that will be less impacted. The Commission is concerned, however, that the reasonableness of the proposal rests upon the Postal Service being correct in its assessments about consumer preferences (see Section VII.F., *supra*.) and its ability to achieve the modeled increases in reliability, cost savings, and efficiency. See Sections VII.C.-VII.E., *supra*. Should the Postal Service prove wrong in its predictions in the above areas, the rational basis for the proposal may prove illusory. The Commission's advisory opinion process, in addition to the opportunity for the public to engage with the Postal Service on its proposal, is an opportunity for the Postal Service to re-test and reconsider the basis for its proposed changes in light of the issues raised by the commenters and the Commission.

The Commission will evaluate any post-implementation claims of undue or unreasonable discrimination pursuant to the complaint process set forth in 39 U.S.C. § 3662.

VIII. CERTIFICATION

It is the opinion of each of the Commissioners listed below, pursuant to 39 U.S.C. § 3661(c), that this Advisory Opinion conforms to the policies established under Title 39, United States Code.

Michael Kubayanda, Chairman

Ashley E. Poling, Vice Chairwoman

Mark Acton, Commissioner

Ann C. Fisher, Commissioner

Robert G. Taub, Commissioner

APPENDIX A
PARTIES AND COUNSEL/AUTHORIZED REPRESENTATIVE(S)

Party Counsel/Authorized Representative(s)	Party Short Form
American Postal Workers Union, AFL-CIO Melinda Holmes Nicholas Mendoza Phillip Tabbita	APWU
Association for Postal Commerce Matthew D. Field Michael Plunkett Ian D. Volner	PostCom
Douglas F. Carlson Douglas F. Carlson	Carlson
Steve Hutkins Steve Hutkins	Hutkins
National Association of Letter Carriers, AFL-CIO Peter DeChiara James Holland Kate M. Swearengen	NALC
National Association of Postal Supervisors Robert M. Levi	NAPS
Public Representative Mallory L. Smith Samuel Koroma	Public Representative

APPENDIX B
TESTIMONY/REBUTTAL TESTIMONY

Direct Testimony—United States Postal Service (Postal Service)		
Citation	Filing Date(s)	Short Citation
Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T-1); Notice of Filing Replacement Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T-1); Notice of the United States Postal Service of Revisions to Certain Pages of the Request for an Advisory Opinion, USPS-T-1, USPS-T-2, and USPS-T-3 -- Errata (Errata to Request and Testimony)	June 17, 2021 (original); June 21, 2021 (replacement); July 2, 2021 (errata) August 10, 2021 (revised)	Revised USPS-T-1 ¹
Direct Testimony of Michelle Kim on Behalf of the United States Postal Service (USPS-T-2); Notice of the United States Postal Service of Revisions to Certain Pages of the Request for an Advisory Opinion, USPS-T-1, USPS-T-2, and USPS-T-3 -- Errata (Errata to Request and Testimony)	June 17, 2021 (original); July 2, 2021 (errata); August 10, 2021 (revised)	Revised USPS-T-2 ²

¹ The testimony, as corrected by the replacement and errata, is included in the filing of Notice of Filing Designated Materials and Declaration Attesting to the Proposed Record Material for United States Postal Service Witness Stephen B. Hagenstein, August 10, 2021 (Revised USPS-T-1).

² The testimony, as corrected by the errata, is included in the filing of Notice of Designated Materials, and Notice of Filing of Declaration Attesting to the Proposed Record Material, for United States Postal Service Witness Kim, August 10, 2021 (Revised USPS-T-2).

Direct Testimony—United States Postal Service (Postal Service)		
Citation	Filing Date(s)	Short Citation
Direct Testimony of Thomas J. Foti on Behalf of the United States Postal Service (USPS-T-3); Notice of the United States Postal Service of Revisions to Certain Pages of the Request for an Advisory Opinion, USPS-T-1, USPS-T-2, and USPS-T-3 -- Errata (Errata to Request and Testimony)	June 17, 2021 (original); July 2, 2021 (errata); August 10, 2021 (revised)	Revised USPS-T-3 ³

Rebuttal Testimony		
Citation	Filing Date	Short Citation
Rebuttal Testimony of Anita Morrison on Behalf of the American Postal Service Workers Union, AFL-CIO	August 4, 2021	APWU-RT-1

³ The testimony, as corrected by the errata, is included in the filing of Notice of Designated Materials, and Notice of Filing of Declaration Attesting to the Proposed Record Material, for United States Postal Service Witness Foti, August 10, 2021 (Revised USPS-T-3).

**APPENDIX C
BRIEFS/REPLY BRIEFS**

Citation	Filing Date	Short Citation
Public Representative (PR)		
Initial Brief of the Public Representative	August 20, 2021	PR Brief
United States Postal Service (Postal Service)		
Initial Brief of the United States Postal Service	August 20, 2021	Postal Service Brief
Reply Brief of the United States Postal Service	August 27, 2021	Postal Service Reply Brief

**APPENDIX D
STATEMENTS OF POSITION**

Citation	Filing Date	Short Citation
Statement of Position from M. Bruce	June 22, 2021	Bruce Statement
Statement of Position from John Cowley	May 26, 2021	Cowley Statement
Statement of Position from Sylvia Fellows	June 2, 2021	Fellows Statement
Statement of Position from Sharon Hamersley	June 23, 2021	Hamersley Statement
Statement of Position from Stephanie Ladd	June 22, 2021	Ladd Statement
Statement of Position of the National Association of Letter Carriers, AFL-CIO	August 19, 2021	NALC Statement
Statement of Position from Lila Oshatz	May 26, 2021	Oshatz Statement
Statement of Position of 17 State Attorneys General and Two Cities	August 20, 2021	States and Cities Statement
Statement of Position from Edward Taussig	May 26, 2021	Taussig Statement
Statement of Position from Evan Wolfe	June 22, 2021	Wolfe Statement